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OUTLOOK & SITUATION

This report was generated as part of the International Economics Division's ongoing program of agricultural situation and outlook analysis and reporting. The program's regularly scheduled publications include: the *World Agricultural Situation and Outlook* published three times annually; regional situation and outlook reports on Asia, Africa and the Middle East, the People's Republic of China, Eastern Europe, the Soviet Union, Western Europe, and the Western Hemisphere published annually; indices of world and regional food and agricultural production published annually; the *Foreign Agricultural Trade of the United States* published bi-monthly; the *Food Aid Needs and Availabilities Report* published quarterly; and the *Outlook for U.S. Agricultural Exports* published quarterly. All are available on request from the Economic Research Service, U.S. Department of Agriculture, Room 0054, South Building, 14th and Independence Avenue, S.W., Washington, D.C. 20250.

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NOTE: Fiscal 1982 means October 1981-September 1982. Tons are metric and dollars are U.S. unless specified otherwise.

Summary

World Economic Activity Slow; Prices Declining

Global economic activity remains slow and will continue so at least well into 1982. Developed nations' attempts to lower inflation caused sluggish economic growth, declining trade, and high unemployment. While inflationary pressures seem to be subsiding, overall inflation remains up. Sluggish demand in industrialized countries is slowing trade. For developing nations, only exporters of oil and some manufactured products are expected to perform well.

The U.S. dollar continued to appreciate relative to the German mark, Japanese yen, British pound, and Dutch

guilder through July and August. The Canadian dollar also declined relative to U.S. currency; however, the yen is expected to strengthen.

The steady strengthening of the dollar has helped push commodity prices downward. World prices for grain and soybeans and products dropped during the summer. U.S. import prices for many commodities fell, led by bearish markets for coffee and rubber. Farm prices continued to slide, because good weather in July and August boosted prospective 1981/82 supplies.

U.S. agricultural exports in fiscal 1981 are estimated at \$44.7 billion, up 10 percent from a year earlier. However, volume may be slightly below last year's record. In 1982, with large supplies and lower prices, volume is

expected to increase strongly, with the total value projected between \$44 and \$48 billion. The agricultural trade surplus is estimated at over \$27 billion this year and between \$25 and \$30 billion in 1982.

World wheat and rice production should reach alltime highs in 1981/82. Wheat exports will rise sharply, but rice shipments may decline. Wheat stocks may climb to the level of 2 years earlier, but rice holdings will increase only marginally.

A record U.S. crop may push world coarse grain production to an alltime high in 1981/82. Use will grow only 1 percent, allowing stocks to recover, especially in the United States. Larger Soviet imports will push world trade of coarse grains to a record level.

Aided by a good U.S. harvest, world oilseed production should exceed the 1979/80 record. Global soybean crush and use of high protein meals will increase about 6 and 7 percent, respectively. Declines in U.S. soybean prices should improve export prospects.

Total meat production will remain near last year's level or decrease slightly, because increasing poultry output may not quite offset declining pork. Beef and veal production will match that of last year.

Increases in milk production in the United States and Western Europe will overshadow declines in the USSR, Poland, Australia, and New Zealand. Cheese production should also be up in 1981.

Sugar output this year may exceed the 1977/78 record of 92.5 million metric tons, depending on the crops in Europe, Brazil, and Cuba.

The July estimate for coffee production in 1980/81 stands at 82.7 million bags, and projections indicate a record 95.3 million in 1981/82. The 33-percent increase in global stocks will keep downward pressure on prices this fall. Cocoa production should exceed last year's record 1.65 million metric tons. Implementation of the International Agreement on August 1 temporarily reversed a bearish trend.

World cotton production, forecast at a record 70.6 million bales (15.4 million metric tons) in 1981/82, may enlarge ending stocks more than 2.5 million, while keeping pressure on prices. Most of the increase will come from a 39-percent larger U.S. crop—15.5 million bales (3.4 million metric tons).

World Agricultural Situation

WORLD ECONOMIC CONDITIONS

Global economic activity remains slow relative to historical standards and will continue so at least through the next year. In attempting to lower inflation in their economies and retool certain sectors, most developed nations are maintaining policies of restraint. Hence, growth and trade are sluggish, and unemployment is high. While inflationary pressures seem to be subsiding, overall inflation remains high.

Because of sluggish demand in the industrialized economies, trade is slow and most developing nations are suffering the consequences. Within the developing world, only exporters of oil and some manufactured products are expected to perform well.

The Developed Economies

Interest Rates Help Slow Inflation

Starting in early 1980, interest rates have been a major policy tool to reduce the rate of growth in money supplies in the major economies. This has generally been successful, with inflation rates now subsiding below most interest rates. In addition to imposing high interest rates to limit the expansion of national money supplies, some central bankers have hiked rates to prevent capital outflows from aggravating downward pressure on currencies. It is likely, therefore, that while domestic considerations would suggest a relatively low range for interest rates,

capital movements and the concern about currency depreciation dictate a higher range for rates in some countries.

Although high interest rates are frequently blamed for lagging investment, a firm's (or country's) sales outlook and amount of unused productive capacity seem to be more important determinants. Because of meager growth in domestic and export demand, the sales outlook for many products is low in general, and substantial capacity remains unused.

Similarly, the rate of income growth, as it affects overall demand, outweighs interest rates in determining the level of agricultural imports. Nevertheless, high interest rates can be a disincentive to importing such commodities as cotton or soybeans, where the financing of large inventories is costly.

Some Expansion for 1981

Since early 1980, most industrialized nations have faced low or negative growth, current account deficits, rising unemployment, and inflation and interest rates that are high by historic standards. This recent epidemic of economic ills is in part the cause and, more recently, the result of fiscal and monetary policies of restraint in almost all developed economies. Hoping to tame the inflationary surge of the 1979/80 petroleum price hikes, policymakers have attempted to stem the growth of national money supplies and, in some cases, shift a greater proportion of economic activity into the private sector.

Inflation rates in consumer price index

Countries	1979	1980	1981 ¹
Percent			
Canada	9.1	10.1	11.5
Japan	3.6	8.0	5.5
France	10.6	13.5	13.0
Germany	4.1	5.5	5.7
Italy	14.8	21.2	21.0
U.K.	13.4	18.0	10.7
OECD	-9.8	11.3	10.0

¹Forecast.

Income growth rates

Countries	1979	1980	1981 ¹
Percent			
Canada	2.7	.1	2.5
Japan	5.6	4.2	4.0
France	3.5	1.2	.4
Germany	4.5	1.8	-.9
Italy	4.9	4.0	.2
U.K.	1.7	-1.7	-2.8
OECD	3.7	1.2	1.5

¹Forecast.

Unemployment rates

Countries	1979	1980	1981 ¹
Percent			
Canada	7.5	7.5	7.5
Japan	2.1	2.0	2.1
France	5.9	6.3	7.9
Germany	3.8	3.8	5.0
Italy	7.7	7.6	7.9
U.K.	5.4	6.8	10.5
OECD	5.1	6.3	7.0

¹Forecast.

Trade balance

Countries	1979	1980	1981 ¹
Billion dollars			
Canada	3.6	6.7	5.9
Japan	1.8	2.0	13.0
France	-1.4	-11.9	-13.0
Germany	12.6	5.7	5.5
Italy	-1.0	-16.1	-15.2
U.K.	-7.4	2.8	4.9
OECD	-41.8	-75.2	-62.5

¹Forecast.

The current outlook for economic activity is mixed. Projections through 1982 suggest that the average rate of growth in the gross national product (GNP) of the Organization for Economic Cooperation and Development (OECD) will be low. Slight growth—based on exports, particularly those to the oil-exporting countries during the second half of 1981—should provide momentum for moderate expansion in 1982. Inflation rates are already dropping in some countries because of tightened monetary policies and slackened demand, yet the depreciation of most major currencies relative to the dollar this year is dampening inflation's descent. Unemployment levels are considerably higher than last year. While the rate of increase in unemployment has moderated since the beginning of the year, only a modest outlook for recovery implies that large sections of the labor force will remain jobless.

This scenario will probably not hold for all countries. The United Kingdom will suffer a recession for the second consecutive year but should cut its inflation rate in half. Canada will likely boost its aggregate income growth rate from 0.1 percent in 1980 to 2.5 in 1981, while its unemployment rate will remain around 7 percent. Japan's growth rate will probably stay at the 1980 level, yet inflation should fall 2.5 percentage points.

Consumption Boosts Canadian Growth

Spurred by exports and final domestic demand, the growth in the Canadian GNP during the second half of 1980 continued in early 1981, as surging private investment and final demand offset declining exports. Making up 30 percent of the GNP in 1980, exports climbed 7.3 percent in value from the first quarter of 1980 to the same period this year. In volume terms, however, exports fell 9 percent. Data for early 1981 suggest that exports may not provide a significant stimulus to further GNP growth. The deficit on the current account is likely to swell with sharp increases in interest and dividend payments overseas. Despite the rather bleak outlook for Canada's trade, GNP growth could push to 2.5 percent on the strength of private consumption and fixed investment.

Because of the poor export performance, the Canadian dollar has depreciated about 3 percent against the U.S. dollar since January. However, the currency has maintained a good deal of its strength primarily because of low interest-rate differentials and frequent intervention by the Bank of Canada. Interest rates, hiked in early August to stem the Canadian dollar's slide, have generally kept pace with U.S. rates but have not fluctuated quite so much.

Given the demand for money and the government's target for 4-to 8-percent growth in the money supply, official intervention in financial markets has been roughly consistent with domestic priorities. These priorities, outlined in the October 1980 budget, stress the need to relieve inflationary pressures and to improve productivity. Inflation, measured by the consumer price index (CPI) at over 10 percent last year, is likely to register over 11 percent in 1981, reflecting recent wage settlements, exchange rate movements, and higher ener-

gy prices. With business activity expected to remain low through this year and next, unemployment—standing at 7.3 percent in June—will likely remain between 7 and 8 percent.

France Implements Fiscal Stimuli

Economic indicators began falling in France during the second half of 1980 and have been dropping ever since. Consequently, the GNP will probably show little expansion this year. Manufacturing output and business investment are not likely to surge ahead until inventories drop from relatively high levels and interest rates settle more. Meanwhile, unemployment, at over 7 percent, may nudge 8 percent by the end of the year. Fiscal policies already announced include a minimum wage raise, job programs, and significant social transfers. The resulting 30-percent increase in the 1980 budget from these measures alone will probably provide the bulk of the stimulus to raise GNP.

The net foreign balance may increase despite weak demand in France's export markets. The franc's depreciation has provided some competitive edge, and imports will probably stagnate because of low domestic demand and continued inventory depletion. In nominal terms, however, the trade balance will show a significant deficit, as will the balance on the current account. Inflationary pressures are expected to come from the franc's depreciation, wage increases, and government expenditures. Inflation will likely remain at last year's level, despite depressed demand.

Germany's Stimulus From Exports

After three consecutive quarters of negative growth, the Federal Republic of Germany's GNP turned around during the first two quarters of this year, on the strength of increased export sales. Other sectors remain weak, however, and GNP may shrink from last year's level. Government policies tend to be restrictive, except for incentives for investment, and little overall stimulus is expected from consumption. Despite new incentives, investment will probably be weak because of slack demand, unutilized resources, and burdensome interest rates. Germany's current account position continues in deficit, because the rise in export sales has been weak, import competition stiff, and payments for services and transfers huge.

Because of the poor current account situation and, to a lesser extent, capital outflows, the Deutschemark slipped 22 percent vis-a-vis the dollar since January. The CPI has correspondingly risen 4 percent and will push higher by the end of the year. Competition from importers and limp export and domestic demand (situations that are likely to continue through 1981) are the factors behind underutilization of resources and the steep rise in unemployment since last year.

Italian Inflation High

Economic growth in Italy is likely to be extremely low in 1981, with minor stimuli from consumption, government expenditures, and exports. Investment will prob-

ably continue dropping from last year because of low profit margins, underutilized capacity, and greater credit controls, thus bringing total investment below that of 1980. The major reasons for slower GNP growth are deterioration in the export sector and restraints in monetary policy and government spending as authorities attempt to tame high inflation rates.

Fiscal and monetary policies had no dampening effect on inflation in 1980, and, while the effects of more recent policies are not yet measurable, inflation should continue at over 20 percent. The impact of inflation on the export sector is expected to wipe out most gains provided by the lira's depreciation. Meanwhile, import demand may extend the trade deficit significantly above last year's, and the deficit on the current account should be substantial for the second year in a row. Unemployment will near 8 percent for the year because of the loss of jobs in export industries and domestic employment lost because of imports.

Japanese Economy Stable

Japan's export-led growth in 1980 will probably repeat this year about the same 4-percent clip. Major growth factors have begun to shift, however, as expansion in domestic demand and, to a lesser extent, exports follow the surge in last year's GNP. Although the yen continues to trade at a premium over the dollar in forward exchange markets, it has lost appreciable ground, 16 percent, since January. While this depreciation should boost exports above already growing rates, the resulting inflationary pressures may stifle the growth in domestic demand. Rising domestic demand is a key element for Japan's economic growth in 1981 and depends on wage gains surpassing rising consumer prices, thus yielding greater real income.

Official Japanese concern over the size of the budget deficit has made monetary policy the major tool of economic stimulus. Monetary policies have been implemented by keeping interest rates low, hiking banks' credit ceilings, and easing controls on off-shore lending. Despite low interest rates relative to other international assets, yen assets continue to attract funds from overseas because of the underlying assumption that the economy is stable and that the current account deficit will shrink substantially in 1981 before possibly turning to surplus in 1982.

U.K. Situation Grim

The economy of the United Kingdom is headed for its second consecutive year of recession and will show the largest GNP drop among the major economies. All of the principal subsectors of domestic demand are slated to fall, especially investment, which has plummeted because of slack demand, tight profit margins, and high interest rates. Slower increases in wage settlements, narrowed profit margins, and the appreciation of sterling (caused primarily by the production of North Sea oil) have cut the inflation rate—now at 11 percent—in half since the beginning of 1980.

Unemployment has continued to rise, although at a diminishing rate, since the end of 1980. The loss of com-

petitiveness, resulting from inflation and currency appreciation, will probably limit exports. Slower inventory drawdowns and the deterioration of the competitive position of domestic manufacturing should provide noticeable stimulus to import volumes. The trade account will likely remain in surplus because of favorable terms of trade movements. Net services and transfers receipts should bolster the current account surplus.

The Developing Countries

Lower Growth Likely

Primarily because of the sluggish expansion in the industrialized economies, GNP growth for most developing countries is falling short of historical rates. Inflationary pressures in many developing economies have forced authorities to seek policies of restraint, thereby furthering the slowdown. Generally declining growth in export volumes, aggravated by low prices for many primary commodities and steep import bills inflated by higher prices for imports, has worsened the current account deficits of most developing countries and increased the strains on their economies.

The general trend does not, however, apply to all countries. Members of the Organization of Petroleum Exporting Countries (OPEC) will register current account surpluses over at least the next 18 months. Higher revenues from the 1979/80 oil price increases are enabling these nations to import a broad range of goods for general development. In contrast, low-income countries that import petroleum are finding their trade balances squeezed by higher import costs and slow expansion in their export volumes. To compound the adverse situation, drawdowns of reserves, in addition to grants in aid, are financing current account shortfalls.

OPEC Growth Restricted

Increases in the international price of oil during 1979/80, the relaxation of some pricing and import restrictions, and the effects of higher import prices pushed OPEC's average inflation rate up from 11 percent last year to 13.5 percent in 1980/81. Restrictive policies that held inflation in check have generally been eased a bit, but OPEC members are implementing expansionary policies with caution. Broadly speaking, these nations wish to avoid another runup in domestic prices, to expand external reserves while reducing external debt, and to change their strategies for development while diminishing its social strains. Moreover, the continuation of the Iran-Iraq war and inflation partially offset the gains to OPEC that would otherwise continue to accrue from major price increases for oil in late 1980 and early 1981.

Non-OPEC Outlook Bleak

For the most part, the developing nations that don't export oil see a less rosy outlook. The rate of growth of their international purchasing power has faltered, as has their rate of increase in import volumes. At the same time, oil imports as a percentage of the total will prob-

ably reach 23 percent in 1981, as opposed to 14 percent in 1978. Current account deficits for this group are expected to surpass \$100 billion in 1982. The impact of the recent oil price surge on import payments and the current account deficit was quantifiably greater than the 1973/74 price hike. Yet, within the overall trade deficit, the balance for non-oil trade has performed well.

In addition to negative trade balances, many countries face deficits on service transactions, mostly because of external debt payments. Within the group of non-oil exporting countries, those that primarily export manufactures have most sharply increased their external debt. The same sub-group, which includes Taiwan, Hong Kong, Korea, Singapore, Brazil, and Mexico, accounts for the largest percentage of the overall current account deficit of the non-oil countries. This development reflects high import growth, especially for oil, and increased drawings of international credit to finance the current account deficit.

The low-income developing countries' current account deficits are likely to worsen in the near term. Although import growth continues to be weak, export expansion is weaker. The low rate of import growth results from reduced foreign exchange reserves and the inability to finance imports. Dependent upon grants in aid and long-term flows from official sources, many low-income countries have weak external reserve positions and are expected to apply for IMF credit.

(Much of the data and some of the analysis presented came from the World Economic Outlook (WEO), a survey prepared by the International Monetary Fund (IMF). While the WEO was used as a broad model for this report, data that update the analysis of the WEO have been made available. In those cases, the text and the tables incorporate more recent data. Arthur Morey, 202 447-8470)

INPUTS AND FINANCE

Energy

Oil Prices Eroding; Supplies Plentiful

For the first time in more than 10 years, international prices for crude oil are declining significantly, as demand continues to drop faster than production and inventories accumulate. An OPEC meeting in August failed to produce an agreement among its members on a unified pricing and production strategy, and oil buyers can look forward to flexible prices and a high level of supplies for at least the rest of this year. The outlook for 1982 is for stable or marginally lower oil prices and plentiful supplies.

World crude oil production fell 5 percent in 1980 and will probably fall 2.7 percent in 1981, down from an all-time peak of 62.8 million barrels a day in 1979 to 58.7 million this year. However, during the same 2 years, world oil consumption declined by 6 and 5 percent, respectively, resulting in a stock accumulation of up to 3 million barrels a day.

In a similar situation, softening oil prices became evident in the fall of 1980. However, OPEC countries could still enforce an increase, as they did last December, when prices rose from \$30-\$37 to \$36-\$41 a barrel, depending on quality. Saudi Arabia maintained its price at \$32 a barrel. This move forced the world average price from \$33.31 a barrel last December to \$35.53 in February of this year. By September, however, the price went down to \$34.13, as hard-pressed producers began to cut spot prices and eliminate surcharges in the face of market resistance.

OPEC Meeting Ineffective

Faced with the new market situation, OPEC countries called a meeting of their oil ministers in Geneva last

August. Saudi Arabia, which currently produces 43 percent of OPEC oil, was willing to increase its benchmark price from \$32 to \$34 a barrel, provided the other members agreed to a price freeze through 1982 and a reduction in the quality differential from \$5 to \$3 a barrel. When Saudi Arabia refused to accept a compromise of \$35 a barrel and a price freeze to last through 1981 only, the meeting disbanded without reaching any agreement.

In a gesture to OPEC partners, the Saudis announced their intention to cut production 10 percent, or some 1 million barrels a day, as of September, and to review monthly their production level. However, they will maintain their current price of \$32 a barrel until the end of 1982. The Saudi decision assures stable, or at most marginally lower, oil prices and ample supplies for another year. This prospect will hold unless there is a substantial resurgence of economic activity in industrialized countries and an increase in oil consumption. Price and production levels may still be changed at the next OPEC meeting to be held in Abu Dhabi in December, but this is not very likely. (Francis Urban, 202 447-8106)

World crude oil production

Region	1980	1981 ¹	1982 ²
Million barrels/day			
OPEC	27.0	24.2	23.2
USSR	12.0	12.2	12.2
USA	8.6	8.6	8.7
Mexico	1.9	2.3	2.5
Canada	1.4	1.4	1.3
North Sea ³	2.1	2.3	2.4
China	2.1	2.0	2.0
Other	4.7	5.3	5.7
Total	59.8	58.2	58.0

¹Forecast. ²Projected. ³United Kingdom, Norway, and Denmark.

Fertilizer

World Forecast to 1985/86

A recent forecast by the FAO/UNIDO/World Bank Fertilizer Working Group indicates that the world's supplies of nitrogen fertilizer may be relatively tight compared with expected consumption for the next 5 years, while phosphate and potash supplies should be ample to meet expected use. Although this forecast is more pessimistic than previous forecasts, it does not represent a fundamental deterioration in the nitrogen supply outlook. Rather, it reflects a different method of accounting for idle ammonia plants.

Nitrogen Surplus Capacity Reconsidered

Nitrogen supply capability is forecast to remain very close to expected consumption through 1985/86. Theoretically, slight deficits could develop beginning in 1982/83, but they account for less than 1 percent of consumption. Last year's forecast predicted nitrogen supply capability surpluses of 2 to 4 million metric tons, but the current forecast points to minimal deficits of 0.1 to 0.7 million tons. Actual physical shortages are not expected, because improved capacity utilization, inventory drawdown, and restarting idle plants are all possible in the short term. However, the forecast does point out the need for early decisions regarding recommissioning idle plants or building new ones.

In preparing its annual forecast this June, the Working Group reversed its former assumptions regarding idle ammonia capacity. In previous years, the group assumed that idled ammonia plants, accounting for almost 5 million metric tons of nitrogen capacity, should be included in the listing of world ammonia capacity as potentially capable of contributing to world nitrogen supplies. However, this year the Working Group agreed that most idle plants in the United States should be excluded from the supply capability list, because many have been closed since 1978 and cannot quickly or easily resume operations. Other idle ammonia plants in Iran, Iraq, and the

Soviet Union are also expected to remain inoperative for at least part of the period.

Phosphate Capacity Ample

The phosphate supply capability is expected to exceed forecast demand by over 1 million tons of nutrient through 1984/85. This theoretical surplus declines to 0.3 million tons in 1985/86.

Potash Capacity Growing

Potash supplies are expected to be more adequate relative to consumption than foreseen in last year's forecast. This is due to major capacity expansions in Canada, announced after last year's forecasts were prepared. Potash supply capability could potentially exceed consumption by about 2.8 million tons of nutrient in 1984/85. (Richard F. Rortvedt, 202 447-7340, National Economics Division)

Exchange Rates

U.S. Dollar Continues to Strengthen

During July, the U.S. dollar extended, then, in August maintained its appreciation relative to the German mark, Japanese yen, British pound, and Dutch guilder. In addition, the Canadian dollar, which had retained much of its value throughout this sustained onslaught, seems finally to have succumbed to the pressure generated by its U.S. counterpart.

In general, the same trends that induced the dollar's rise for the first 6 months of 1981 continued through July and early August. Short-term U.S. interest rates have remained very high; heavy borrowing requirements by the Government in the third and fourth quarters should dampen any downward tendency. The relatively high rates of return encourage the holding of dollars over other currencies. The fact that the dollar is the major worldwide source of foreign exchange reserves has also considerably enhanced its present appeal.

World fertilizer supply capability¹, consumption, and balance

Nutrient	1979/80 ²	1980/81 ³	1981/82 ³	1982/83 ³	1983/84 ³	1984/85 ³	1985/86 ³
<i>Million metric tons</i>							
Nitrogen (N)							
Supply capability ⁴	57.30	60.73	63.35	66.09	68.68	71.13	73.54
Consumption	57.16	60.63	63.27	66.19	68.86	71.43	74.21
Balance	0.14	0.10	0.08	-0.10	-0.18	-0.30	-0.67
Phosphate (P ₂ O ₅)							
Supply capability ⁵	31.40	33.61	35.38	37.42	39.03	40.19	41.03
Consumption	31.08	32.32	34.22	35.87	37.47	39.02	40.74
Balance	0.32	1.29	1.16	1.55	1.56	1.17	0.29
Potash (K ₂ O)							
Supply capability	23.40	25.70	27.58	28.71	31.90	33.50	33.71
Consumption	23.43	25.70	27.33	28.57	29.64	30.69	31.92
Balance	-0.03	0	0.25	0.14	2.26	2.81	1.79

¹Potential supply capability reflects normal capacity utilization rates and deducts non-fertilizer uses, processing and distribution losses, normal stock changes, and pipeline supplies. ²Preliminary. ³Forecast. ⁴Ammonia only. ⁵Phosphoric acid and phosphate fertilizers using other feedstocks only.

Source: Preliminary data from FAO *Monthly Bulletin of Statistics*, March, 1981. Forecast data from Current Fertilizer Situation and Outlook, FERT/81/3, FAO Commission on Fertilizers, Seventh Session, September 7-10, 1981.

The German mark, British pound, and Dutch guilder continue to suffer the economic woes of the apparent stagnation affecting all of Western Europe. Lowered oil prices have adversely affected the formerly positive balance-of-payments position of the United Kingdom, lessening the demand for British currency. The mark has been similarly pounded by the rush to take advantage of U.S. interest rates--substantially higher than those in West Germany. In addition, the uncertain political climate in all of Western Europe, extenuated by the unrest in Poland, has led to a general wariness towards the holding of European currencies.

The Canadian dollar has begun to reflect current economic problems in that nation. High, and apparently rising, inflation has caused many Canadian firms to seek investment south of the border. Also contributing to the Canadian dollar's fall has been a sharp deterioration in the current account balance, which may show a deficit of C\$6 billion this year.

Turning the tables on the dollar, however, is the Japanese yen, currently showing positive signals of strengthening. The drop in petroleum prices has allowed a rapid improvement in Japan's balance of payments, while mitigating one of the strongest inflationary elements in its economy. As a result, prices in Japan are expected to rise only 5.5 percent for the fiscal year ending March 31, with indications that the rate could be even lower. (David Stallings, 202 447-8457)

Agricultural Commodity Prices

International prices of grain, soybeans, and soybean products were pushed lower during the summer months. U.S. import prices of many commodities fell, led by bearish markets in coffee and rubber. Farm prices continued sliding, as favorable weather in July and August boosted 1981/82 prospective supplies. Ocean freight rates from the U.S. Gulf to the Netherlands and Japan weakened in response to sluggish export demand and an abundance of vessels.

Export Prices Decline

U.S. wheat export prices held steady throughout the summer months, in contrast with declining foreign prices. The Gulf price steadied during June, July, and August, centering around \$170 a ton, slightly above last summer's average. Many factors provided support for the Gulf price. Total beginning wheat stocks of our major competitors—Canada, Australia, Argentina, and the EC—are down from last season, while U.S. beginning stocks increased for the first time in 3 years. This puts the United States in a favorable position to boost its share of an already expanding market.

On the demand side, recent developments in major importing countries indicate additional U.S. exports that should support prices. The resumption of grain sales to the USSR, the 1-year extension of the U.S.-USSR grain

International export prices

Year	Wheat				Corn		Soybeans		Soyoil		Soymeal 44%	
	U.S. No. 2 ¹	Argen- tina ²	Canada No. 1 ³	Australia ⁴	U.S. No. 2 yellow ⁵	Argen- tina ²	U.S. No. 2 yellow ⁵	Decatur	Dutch ⁶	Decatur	Hamburg ⁶	
<i>Dollars per metric ton</i>												
1975	149	147	181	167	122	126	210	559	563	163	162	
1976	134	128	149	147	115	114	223	414	438	192	203	
1977	105	100	116	113	98	93	271	524	579	171	240	
1978	131	126	134	119	105	102	259	565	607	145	226	
1979	162	159	171	142	118	117	269	610	662	197	254	
1980	176	203	192	175	129	159	272	522	598	217	271	
Jan.	179	191	192	169	112	139	248	520	609	200	265	
Feb.	176	208	191	173	117	145	250	521	610	192	254	
Mar.	168	213	175	166	114	151	240	479	580	180	242	
Apr.	158	209	164	160	111	160	227	445	552	174	242	
May	164	199	174	168	113	145	234	457	562	183	248	
June	159	192	173	166	115	147	233	475	570	178	238	
July	170	189	186	173	133	156	264	575	632	210	255	
Aug.	175	196	192	173	145	164	294	571	636	228	265	
Sept.	182	197	197	180	145	172	213	573	615	259	299	
Oct.	192	214	213	189	145	176	213	540	597	268	324	
Nov.	199	219	225	192	149	180	342	579	639	287	355	
Dec.	188	209	219	189	151	176	302	523	574	246	265	
1981												
Jan.	191	212	221	189	155	169	299	494	545	242	304	
Feb.	184	211	213	185	145	153	204	475	516	233	286	
Mar.	176	210	202	179	144	142	284	507	535	229	284	
Apr.	181	194	198	180	146	136	297	511	531	244	294	
May	175	189	197	174	143	137	291	466	511	244	284	
June	170	180	189	168	139	132	273	469	512	221	265	
July	170	177	186	168	141	138	281	500	529	226	260	
Aug.	172	179	182	NA	133	136	266	450	504	221	252	

NA = not available. ¹Hard winter ordinary protein, f.o.b. vessel Gulf ports. ²F.o.b. Buenos Aires. ³Western red spring 13.5% protein, in store Thunder Bay. ⁴July-June crop year, standard white, f.o.b. selling price. ⁵F.o.b. vessel Gulf ports. ⁶F.o.b. ex-mill.

agreement, and a 7-million-ton reduction in the past 2 months in forecast USSR wheat production all suggest increased exports to that region. The first sale of U.S. wheat to India since 1977/78 and the continued record buying by China supported U.S. wheat prices in a declining international market during the summer.

Argentine, Canadian, and Australian wheat export prices continue to be bearish under pressure of increased 1981/82 wheat production. Prices in the three countries fell for 8 consecutive months beginning in January. August export prices for Argentine and Canadian wheat were \$179 and \$182, respectively, compared with the U.S. Gulf price of \$172.

The Gulf price of corn reached a yearly low of \$133 in August, following a 619-million-bushel increase in the August forecast for 1981/82 U.S. production. The September estimate, 7.94 billion bushels, is in response to favorable weather conditions. The U.S. export volume for 1981/82 was reduced by 50 million bushels from an earlier estimate, to 2.45 billion. Argentine corn prices, f.o.b. Buenos Aires, were only slightly above the U.S. Gulf price, in contrast to the 19-percent premium last summer during the partial U.S. sales embargo to the Soviets.

International prices for soybeans and products dropped in August after slight increases in July. Slackened domestic demand, South American export competition, and the strengthening dollar contributed to a bearish market. Low soybean oil prices kept crushing margins narrow in the United States, South America, and Western Europe. World stocks of soybeans and soybean oil at the end of 1981/82 could rise to record amounts, even though oil demand is expected to be stronger.

The August projection of the U.S. soybean supply and use in 1981/82 indicated increased production and 1981 ending stocks and reduced exports from the previous estimate. Wholesale soybean prices responded by reaching a 12-month low of \$246 in August. The Dutch oil price dropped to \$504, 21 percent below a year ago, and Hamburg meal fell to \$252, slightly below last year's level.

U.S. Import Prices Fall

Coffee prices were stable the first 5 months of 1981, but were at much lower levels than last year. In mid-June, circumstances changed amid expectations of huge coffee crops. Prices plunged to a 5-year low. During the week of July 20th, a frost hit Brazil, with estimates of crop damage ranging from 15 to 45 percent. The New York spot price of Brazilian coffee jumped 17 percent in one week, to \$1.35 a pound. By the end of August, prices returned to prefrost levels when traders realized this year's crop was not damaged and current supplies and stocks were ample, even though the August 25th USDA estimate of 1982/83 Brazilian coffee production was nearly halved.

The cocoa bean futures price decreased in August to 86.5 cents a pound and was below last summer. Neither the Ivory Coast, the world's largest cocoa producer, nor the United States, the world's largest consumer, signed the new International Cocoa Agreement.

The price of crude rubber continued its gyration downward, despite the attempts of Malaysia, the world's larg-

est rubber producer, to support prices. The August average of the New York spot price of crude rubber reached a 2 1/2-year low of 54 cents a pound. The low price is attributed to a surplus of natural and synthetic rubber caused by the depressed U.S. auto industry, a major buyer of rubber.

World sugar is facing prospects of a bumper crop in the upcoming year. Consumption fell last year but is likely to rise as a result of higher supplies and lower prices. Less than 1 year ago, sugar prices were headed toward 5-year highs of over 40 cents a pound but retreated to about 12 cents in September, a 70-percent decline from a year ago.

Farm Prices Slipping

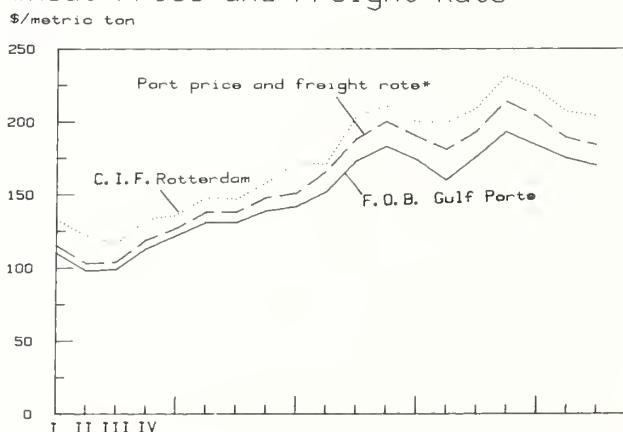
Farm prices slid lower throughout the summer, influenced by good weather and high interest rates. The August estimate of the farm price for wheat dropped to \$133 a ton, down from \$145 for the corresponding month of last year. Wheat prices have been falling since last December and are at their lowest level in 16 months. Corn prices steadied around \$125 the first 2 months of the summer but dropped in August to \$111. Soybean prices dropped also, to \$246 in August.

Farm prices in 1981/82 are forecast to average lower than the previous year. A larger U.S. feed grain forecast and lower prices during the first few months of the wheat marketing year reduced the expected 1981/82 wheat price received by farmers to \$136 to \$147 a ton, compared with \$145 in 1980/81. The forecast for the 1981/82 farm price of corn ranges from \$102 to \$116 a ton, compared with \$124 a year earlier. U.S. producer prices for soybeans are forecast to fall to \$202-\$257 a ton, approximately \$50 lower than 1980/81. Oil and meal prices should also drop.

Ocean Freight Rates Drop

Ocean freight rates from the U.S. Gulf ports to Rotterdam and Japan fell below expected levels during the summer. Freight rates exhibit a seasonal pattern, ebbing in the summer as grain exports decline. The pronounced reduction in the rates was exacerbated by several

Wheat Price and Freight Rate



* U. S. Gulf Ports to Rotterdam

Wheat prices and freight rates

Year	F.o.b. Gulf ports	Ocean freight rate ¹	C.i.f. Rotterdam	Freight rate/ Rotterdam price
	Dollars per metric ton			Percent
1979				
I	142	9	172	5.2
II	152	14	171	8.2
III	173	15	203	7.4
IV	183	17	211	8.1
1980				
I	174	16	200	8.0
II	160	21	199	10.6
III	176	17	209	8.1
IV	193	21	231	9.1
1981				
I	184	20	223	9.0
II	175	15	207	7.2
III ²	170	14	204	6.9

¹U.S. Gulf ports to Rotterdam, 30,000-50,000 ton vessels, ready to load 3-4 weeks. ²July-August average.

occurrences. Initially, rates dropped in April, when U.S. coal miners struck. The strike freed ocean-going vessels for grains because both coal and grain can be shipped in the same type of vessel. Even though the strike ended the last week of May, freight rates did not rise in June because a large number of ships were still available. A lackluster export market kept rates low into August.

In the second quarter of 1981, freight rates from the Gulf to Rotterdam averaged \$15 a ton, compared to \$21 the corresponding quarter of last year. The freight rate as a percent of the c.i.f. Rotterdam wheat price declined from 9 percent in the first quarter and is the lowest since first-quarter 1979. In August, the freight rate on wheat sunk below \$10, a 3-year low, after peaking in December at \$24.

Freight rates for the U.S. Gulf-Japan route averaged \$26 a ton in the second quarter of 1981, compared with \$31 a year earlier. The August freight rate was quoted at \$20, a 40-percent decline from the beginning of the year. (Bradley Karmen, 202 447-9160)

U.S. AGRICULTURAL TRADE

U.S. agricultural exports are estimated up a tenth at \$44.7 billion in fiscal 1981. Export volume may be slightly below last year's record, but prices are significantly higher for most major commodities.

In 1982 export volume is expected to increase strongly. However, prices may average below this fiscal year. Exports are likely to total between \$44 and \$48 billion. Wheat shipments are forecast up over a tenth from this year's record volume. Feed grain and soybean export volume should recover, and cotton exports may expand almost a fifth. Rice exports may decline.

The agricultural trade surplus is estimated at over \$27 billion in 1981. Fiscal 1982's surplus will be between \$25 and \$30 billion.

1981 Exports Approach \$44.7 Billion

U.S. agricultural exports continue to be adversely affected by weak economic conditions worldwide and a stronger dollar. A number of markets appear to be fore-stalling purchases in light of falling prices. As a result, the 1981 export estimate has been lowered to \$44.7 billion. This figure is 10 percent—or \$4.2 billion—above last year's record total, but \$1.3 billion below May's estimate. Export tonnage is now projected to fall marginally below 1980's 163 million tons. This is due in large part to the precipitous drop in corn and soybean shipments during the summer. Exports during the first 10 months of fiscal 1981 amounted to \$37.7 billion, 11 percent above a year ago.

U.S. imports of agricultural products have not yet responded to the stronger dollar. Imports through July were marginally below a year ago, with coffee imports—the largest category—continuing to decline in both volume and price. With imports projected to equal last year's total of \$17.4 billion, the resulting agricultural trade balance for 1981 will be a record \$27.3 billion.

1982 Exports Slightly Higher

Projections for fiscal 1982 show exports in a range from \$44 to \$48 billion. A modest value increase is expected, despite a projected falloff in export prices. Imports should reach \$17 to \$19 billion, based on higher unit prices and the ability of the dollar to attract more goods. The projected agricultural trade surplus will range from \$25 to \$30 billion, or approximately the same as the previous year.

U.S. agricultural exports

Commodity	Oct.-July		Oct.-Sept.	
	1979/80	1980/81	1979/1980	80/81 ¹
<i>Billion dollars</i>				
Grains and feed	15.2	18.7	18.7	22.6
Wheat	5.0	6.2	6.3	7.8
Wheat flour	.2	.2	.2	.3
Rice	1.0	1.3	1.2	1.5
Feed grains	7.5	9.1	9.1	10.6
Oilseeds and products	8.7	8.3	10.0	9.4
Soybean cake and meal	1.4	1.4	1.6	1.7
Soybeans	5.4	5.3	6.2	6.0
Soybean oil	.7	.4	.8	.4
Livestock products	2.7	2.7	3.1	3.3
Dairy products	.1	.2	.2	.2
Poultry products	.4	.6	.5	.8
Cotton, including linters	2.7	2.1	3.0	2.4
Tobacco	1.2	1.1	1.4	1.3
Fruits, vegetables, & nuts	2.3	2.7	2.7	3.2
Sugar and tropical products	.7	1.3	.9	1.5
Total	34.0	37.7	40.5	44.7

¹Forecast.

U.S. agricultural exports¹

Commodity	Oct.-July		Oct.-Sept.	
	1979/80	1980/81	1979/80	1980/81 ²
Million metric tons				
Wheat	28.5	33.0	36.1	41.4
Wheat flour	.7	.8	.9	1.0
Feed grains	59.5	59.5	71.2	68.9
Rice	2.5	2.7	3.0	3.0
Other grain products	.8	1.0	1.1	1.3
Feeds and fodders	4.6	4.5	5.7	5.8
Soybeans	21.1	17.5	23.8	19.6
Soybean meal	6.3	5.5	7.2	6.3
Other oilcake and meal	.3	.4	.4	.5
Soybean oil	1.1	.6	1.2	.7
Other vegetable oils	.6	.8	.6	.8
Sunflower seed	1.5	1.3	1.9	1.6
Cotton, including linters	1.9	1.2	2.0	1.3
Tobacco	.2	.2	.3	.2
Fruits, vegetables, & nuts	2.7	3.5	3.1	4.2
Beef, pork, & variety meats	.3	.4	.3	.4
Poultry meat	.3	.3	.3	.4
Animal fats	1.3	1.3	1.5	1.5
Other	2.6	2.7	3.3	4.1
Total	136.8	137.2	163.9	163.0

¹Actual export tonnages. Excludes animal numbers and some commodities reported in cases, pieces, dozens, liquid measures, etc. ²Forecast.

China Keeps U.S. Wheat Exports Up

After a slump in May, wheat exports rebounded sharply, led by shipments to China and increased exports to North Africa, West Asia, and Latin America. Fiscal 1981 exports of wheat and flour are estimated at 42.4 million tons, 15 percent above a year ago. New-crop wheat and flour are moving out heavily. Anticipated purchases by China, USSR, India, Turkey, and North Africa have helped boost the fiscal 1982 wheat export forecast 5 to 7 million tons above 1981.

Rice exports have fallen off in the past few weeks and are now forecast to reach 3 million tons. Exports to Iran and Iraq fell short of expectations because of the war, and lower credits from the Commodity Credit Corporation (CCC) meant a reduction in exports to South Korea. The outlook for 1982 indicates a reduction in exports due to improved world crop prospects, particularly in South Korea and Indonesia. West Asia is expected to resume heavy buying.

Corn Demand Presently Weak

U.S. corn exports during July and August fell dramatically—30 percent—below year-ago levels, subsequently reducing the export forecast below 60 million tons. Demand slowed in the European Community (EC) Eastern Europe, North Africa, and Mexico. Grain sorghum exports to the major markets (Japan, Mexico, Israel, Taiwan, Venezuela, and Western Europe other than the EC) made up 99 percent of the U.S. market, picking up significantly in recent weeks, as the new crop is harvested. Feed grain exports are estimated at 68.9

million tons, 3 percent below 1980. Much of this can be attributed to:

- A greater use of nongrain feeds (e.g., soybean meal, corn gluten feed, citrus pulp, beet pulp).
- Higher relative prices.
- Better coarse grain harvests by U.S. competitors (Canada, Argentina, South Africa) in 1980/81.

Feed grain exports in 1982 should increase about 4 million tons, primarily because of anticipated exports to the USSR. The Soviet Union is forecast to import a record 40 million tons of grains, of which 22 million is expected to be feed grains.

Brazilian Soy Products Competing

Soybean exports have also faltered, and 1981 exports are estimated at 19.6 million tons, 18 percent below last year. Soybean exports normally tail off during the summer, with the new crop soon to be harvested and a portion of the EC crushing capacity shut down for maintenance. In addition to these factors, unfavorable crushing margins, continued large soybean oil stocks, and high interest rates dampened soybean exports during fiscal 1981.

U.S. soybean meal exports are also down this year—about 14 percent below 1980's record. Large Brazilian supplies are providing stiff competition in Europe. Soybean oil exports were only half of last year's total through June, but Pakistan has begun to buy more heavily in recent weeks. U.S. exports of other oils, such as cottonseed, sunflower, corn, and peanut, appear to have circumvented the soybean oil glut. Exports of these and other U.S. vegetable oils—at 740,000 tons—are estimated 24 percent ahead of 1980.

Fiscal 1981 cotton exports are below two-thirds of last year's export boom. Exports of 1.3 million tons are anticipated—primarily to the large textile producers in East and Southeast Asia. China is again the largest market. Exports next year are expected to increase over 200,000 tons.

Tobacco exports are running 13 percent below a year ago because of increased competition, particularly from Zimbabwe; a significant shift to U.S. cigarette exports as opposed to tobacco; and a falloff in world cigarette demand.

Fiscal 1981, although clouded by the falloff in oilseed and feed grain exports, saw a boom in exports of certain high-valued agricultural products and possibly the emergence of a new mix in agricultural exports. Current projections show marked increases for refined sugar exports (860,000 tons, up 138 percent), dried beans (675,000 tons, up 91 percent), processed coffee (18,000 tons, up 36 percent), eggs (not for hatching; 80 million dozen, up 135 percent), and fresh apples (310,000 tons, up 31 percent).

Recent factors that will affect exports for 1982 include:

- Indications that the economic growth in Western Europe will remain stagnant for the foreseeable future.

- A third consecutive poor Soviet grain crop.
- Reentry of India into the world wheat market.
- Record grain and oilseed crops in the United States,

likely putting downward pressure on prices.

- The glut on the petroleum market, which has benefited some of our major markets. (Steve Milmoe, 202 447-9160).

WORLD COMMODITY DEVELOPMENTS

Food Grains

World wheat and rice production are each expected to reach record levels in 1981/82. However, trade may move in the opposite directions for these two grains. Import demand for wheat is forecast to rise sharply but may contract for rice.

Record Wheat Crops in 1981/82

World wheat production in 1981/82 is forecast at a record 451 million tons—1 percent greater than the 1978/79 record and 2.6 percent above 1980/81. However, poor weather may reduce crops in importing countries. Total world consumption should be up, although declines are expected in importing countries. Total trade may rise sharply, and ending stocks may be up 5 million tons, less than previously thought because of the poor Soviet crop.

Large increases in wheat production are forecast in the major exporting countries. Prospects are for a record U.S. crop, up 16 percent from last year. Canada, Australia,

and Argentina may each have higher percentage increases than the United States. These four exporters may realize a combined 22-million-ton production rise. The rest of the world is expected to have poorer crops, especially the USSR, Brazil, Western Europe, and Eastern Europe. The estimate for Soviet production has been lowered to 93 million tons because of hot, dry weather and a decrease in harvested area. Prospects are for Chinese and Indian crops to be better than last year's but below 1979/80.

Exports To Be Record Also

World wheat exports are forecast at 102 million tons in 1981/82 (July-June), up 8 million from last year. U.S. exports are forecast at a record 49.7 million tons—up 19 percent from the previous year. Prospects are for increases by the other major exporters, although they may face strikes and other handling problems. Despite a good crop in Turkey and a weather-reduced crop in Spain, these countries are reversing their wheat export roles because of government procurement problems.

Wheat: World production, consumption, and net exports

Region	1979/80			1980/81			1981/82 ¹		
	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports
<i>Million metric tons</i>									
Major exporters									
United States	58.1	21.3	37.2	64.5	21.0	41.9	74.8	24.0	49.7
Canada	17.2	5.5	15.0	19.1	5.5	16.7	24.0	5.4	17.0
Australia	16.2	3.3	15.0	10.8	3.3	10.6	16.0	3.0	12.5
EC-10	48.8	43.1	5.8	54.8	43.5	10.0	52.1	44.5	9.5
Argentina	8.1	4.0	4.8	7.8	4.1	3.9	9.2	4.0	5.0
Turkey	13.0	12.2	.4	13.8	12.5	.5	13.5	12.8	-.1
Major importers									
USSR	90.2	115.8	-11.6	98.1	116.1	-15.5	93.0	109.0	-16.2
China	62.7	71.6	-8.9	54.2	67.7	-13.8	56.0	69.5	-13.5
East Europe	27.6	32.3	-5.1	34.5	38.1	-2.9	31.0	36.3	-5.5
Other W. Europe	6.9	8.7	-1.3	9.4	9.0	.4	6.8	8.6	-.9
Brazil	2.9	7.1	-4.0	2.7	6.7	-4.3	1.5	6.6	-5.1
Mexico	2.3	3.4	-1.0	2.7	3.5	-1.3	3.0	3.7	-.9
Other Latin Am.	1.8	7.4	-5.8	1.6	7.7	-6.0	1.4	7.8	-6.3
Japan	.5	6.1	-5.6	.6	6.2	-5.8	.6	6.2	-5.7
India	35.5	35.6	0	31.6	34.1	0	34.0	35.5	-4.0
South Korea	0	1.8	-1.8	0	2.1	-2.0	.1	2.4	-2.3
Indonesia	0	1.2	-1.3	0	1.4	-1.5	0	1.6	-1.6
Other Asia	13.9	22.0	-7.9	14.9	21.0	-5.9	15.9	22.5	-6.8
Egypt	1.9	7.2	-5.2	1.8	7.5	-5.6	1.9	7.8	-6.1
Morocco	1.8	3.4	-1.6	1.8	3.5	-1.9	1.0	3.6	-2.5
Other N. Africa/ Mideast	9.5	19.4	-10.2	11.2	20.5	-12.1	11.6	21.5	-10.6
Other Africa	3.1	6.5	-3.6	2.5	6.8	-4.0	3.0	7.1	-4.2
Rest of world	.3	5.0	-3.3	.5	1.6	-1.4	.3	2.2	-5.4
World total	422.3	443.9		438.9	443.4		450.7	445.6	

¹Forecast.

India, which has been self-sufficient in wheat in recent years, entered the world market and may import 4 million tons in 1981/82. Most major traditional importing countries should purchase at the same or higher levels in 1981/82, except Mexico. Imports by China and Japan will probably be at their previous high levels, while imports by the USSR, Egypt, Eastern Europe, and Brazil may rise. The U.S.-USSR long-term grain agreement was extended for a year, beginning October 1. The agreement requires the Soviets to purchase at least 6 million tons of U.S. wheat and corn and up to 8 million tons without prior government-to-government consultations. With the third consecutive poor crop expected, the level of Soviet wheat and corn imports will remain high, and shipments from the United States could rise.

Total world wheat consumption is forecast to rise marginally but fall in major importing countries. Feed use may fall 3 million tons among importers, which includes the USSR. Ending stocks will likely rebound to the 1979/80 level. U.S. stocks may increase modestly to 28 million tons.

Record Rice Crop Expected in 1982

World rice production for 1981/82 is currently forecast at a record 409 million tons of rough rice (275 million, milled). This will be a 13-million-ton increase over the previous crop. Good weather in many producing countries caused the upward revision of the production forecast in September.

Most major rice producers are expecting increases in 1981/82 crops. Record crops are forecast for the United States, which is expected to produce 8 million tons—up a fifth from a year earlier. World production minus the United States may be up 11 million tons, with the largest increases in China and South Korea. Despite acreage diversion into other crops, Japan's rice production should also be up substantially.

Rice Trade to Fall

World rice trade during 1981 has been strong due to the expected tripling of Korean rice imports, which are more than offsetting the decline in Indonesian imports. The United States, Japan, Burma, and India may have record-large exports.

In 1982, world rice trade is expected to fall, as Korean imports drop by more than half to below the 1-million-ton level. Indonesia is expected to regain its position as the number one rice market. Most major exporters, including the United States, will probably see declining volumes. The largest decline may be in Japan, where exports have soared in recent years.

Consumption in 1981/82 may fall slightly below world production. However, ending stocks are forecast at 23 million tons, marginally above the previous 2 years. India and Japan may reduce rice stocks again, while the United States should triple its carryover (Eileen M. Manfredi, 202 447-7643)

Rice: World production, consumption, and net exports

Region	1979/80			1980/81			1981/82 ¹		
	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports
<i>Million metric tons, milled</i>									
Major exporters									
United States	4.3	1.8	2.7	4.8	2.1	3.0	5.8	2.0	2.8
Thailand	10.4	8.5	2.7	12.2	8.9	3.2	11.9	8.9	3.0
Pakistan	3.2	2.2	1.1	3.1	2.3	1.0	3.2	2.3	1.0
China	97.8	96.8	1.0	94.7	94.2	.6	96.6	95.1	.9
India	42.2	45.8	.4	54.0	54.0	.6	55.0	54.9	.7
Burma	5.9	5.8	.7	7.7	6.0	.9	7.5	6.1	1.0
Japan	10.9	10.1	.6	8.9	10.2	.9	9.8	10.4	.4
Italy	.8	.3	.6	.7	.3	.5	.7	.3	.4
Australia	.4	.1	.3	.5	.1	.4	.5	.1	.4
Major importers									
Indonesia	16.8	19.1	-1.9	20.2	21.3	-2.0	21.0	21.7	-1.0
South Korea	5.6	6.2	-.8	3.6	5.3	-.23	5.2	6.0	-.8
Bangladesh	12.7	13.3	-.7	13.9	13.6	-.1	13.5	13.9	-.1
Vietnam	7.0	7.2	-.2	6.5	6.7	-.2	7.2	7.3	-.2
Other Asia	15.3	15.6	-.4	15.5	15.9	-.4	16.1	16.3	-.2
USSR	1.6	2.0	-.4	1.8	2.7	-.9	1.8	2.4	-.9
Brazil	6.6	6.2	-.2	6.2	6.7	-.2	6.8	6.8	0
Other Latin Am.	4.3	4.3	0	4.3	4.5	-.4	4.5	4.7	-.1
Iran	.8	1.2	-.5	.8	1.3	-.5	.8	1.3	-.5
Other N. Africa/									
Mideast	1.8	3.2	-1.3	2.0	3.4	-1.5	2.0	3.4	-1.4
Malagasy	1.4	1.6	-.2	1.5	1.7	-.2	1.5	1.7	-.2
Nigeria	.6	1.0	-.2	.7	1.1	-.4	.8	1.4	-.6
Other Africa	1.8	3.1	-1.4	1.7	3.1	-1.4	1.8	3.2	-1.4
Rest of world	.5	2.3	-1.9	.7	.8	-.6	.6	3.6	-3.2
World total	252.7	257.7		266.0	266.2		274.6	273.8	

¹Forecast.

Coarse Grains

Prospects for a record U.S. crop indicate that world coarse grain production may reach an alltime high in 1981/82. Use is forecast up 1 percent, following no growth a year earlier. Sluggish growth in livestock production, relatively low prices for protein meal, and limited availability of grain in the Soviet Union are major factors depressing feed use. Carryover stocks are expected to recover from the 1981 low, but the increase will be centered in the United States. Larger Soviet and Western European imports will push world trade to a new high—about 5 million tons above 1980/81 (trade years are July-June).

Foreign Production May Decline Slightly

Outside the United States, harvested area is projected near that of 1980/81. Gains in Canada and Brazil will likely be offset by reductions in the USSR and Argentina. Foreign yields may match last year's high. In the USSR, the hot, dry summer reduced yields, and output will likely decline further from the short 1979 and 1980 crops. Western European production is sharply below last year's records, and Argentine and South African crops next spring are unlikely to match record 1980/81 harvests. In Canada and Eastern Europe, larger area and improved yields are boosting output significantly.

Feed Use Likely To Recover in 1981/82

Global coarse grain use is expected to increase, and feed use may rise over 3 percent from 1980/81's reduced volume. If the USSR is unable to import sufficient coarse grains to fill the production shortfall, use could fall below current projections. In addition, the trade-off between wheat and coarse grain imports and use could alter the coarse grain outlook. Outside the United States and the USSR, feed use is forecast up almost 4 percent.

In the developing countries, feed use of coarse grains increased 10 percent in 1980/81 and may rise 5 percent this year. Expanding poultry industries, particularly in Latin America, and recovery in the East Asian hog sector are major factors behind the growth. In non-EC Western Europe, feed use is projected up 3 percent, following a 2.5-percent gain in 1980/81. Use may rise more than 2 percent in Eastern Europe because of prospects for greater livestock feeding in Poland.

In the EC, coarse grain feeding is expected to remain near last year's level, despite competition from protein meal and other nongrain feedstuffs. Chinese coarse grain use is likely to decline in 1981/82. Production is down slightly, and China is expected to import mostly wheat.

World Trade Growth Continues

World trade is expected to increase from 105 million tons to about 110 million in 1981/82. Soviet imports are forecast at a record 22 million tons and account for the

Coarse grains: World production, consumption, and net exports¹

Country	1979/80			1980/81			1981/82 ²		
	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports
<i>Million metric tons</i>									
Major exporters									
United States	238.7	161.4	71.6	198.7	149.6	72.5	241.8	156.4	72.5
Canada	18.6	18.5	4.8	21.6	18.0	4.6	25.9	18.4	5.4
Australia	6.2	3.1	4.1	5.0	3.0	2.2	6.5	3.1	2.7
Argentina	10.6	5.7	6.6	21.2	6.6	9.9	18.0	6.2	13.9
Thailand	3.6	1.1	2.3	3.5	1.3	2.2	3.8	1.5	2.4
South Africa	11.7	7.5	2.9	15.1	7.5	3.6	12.2	7.6	4.9
Major importers									
USSR	81.2	102.0	-18.4	80.7	99.0	-18.0	77.0	99.0	-22.0
China	83.0	85.0	-2.0	82.5	83.5	-0.8	82.0	83.0	-1.0
Eastern Europe	63.3	72.4	-9.6	61.7	72.3	-9.2	63.6	72.4	-8.6
EC-10	69.1	79.0	-8.4	69.8	77.6	-6.3	68.7	76.8	-7.3
Other W. Europe	21.9	32.1	-9.3	24.9	32.9	-7.6	21.1	33.8	-11.7
Brazil	20.6	21.7	-1.7	23.0	24.0	-2.1	23.5	25.5	-1.0
Mexico	11.6	17.6	-5.0	14.5	19.0	-7.8	14.9	20.5	-5.7
Venezuela	1.2	2.2	-1.3	1.6	2.8	-1.2	1.8	3.0	-1.8
Other Latin Am.	7.7	9.2	-2.1	7.6	9.8	-2.2	7.7	10.2	-2.5
Japan	0.4	19.2	-18.9	0.4	19.7	-18.9	0.4	19.3	-19.0
Taiwan	0.1	3.5	-3.3	0.1	3.7	-3.6	0.1	3.8	-3.8
South Korea	1.7	4.0	-2.5	1.0	4.0	-2.6	1.0	3.9	-2.9
Other Asia	40.5	42.0	-1.5	42.0	43.6	-1.7	43.3	44.4	-1.3
Egypt	3.7	4.5	-0.7	4.0	5.1	-1.2	4.0	5.4	-1.4
Iran	1.1	2.0	-0.9	1.1	2.3	-1.2	1.2	2.3	-1.3
Israel	—	1.2	-1.3	—	1.2	-1.0	—	1.1	-1.1
Other N. Africa/Mideast	12.9	15.1	-2.9	14.6	16.8	-2.5	13.7	16.5	-2.6
Other Africa	30.0	31.2	-1.2	31.8	32.6	-2.0	32.3	33.6	-1.1
Rest of World	0.5	0	-1.3	0.4	6.1	-5.1	0	3.3	-5.7
World total	739.9	741.2	—	726.8	742.0	—	764.5	751.0	—

¹Production and consumption on marketing year basis, trade on July-June year. ²Forecast.

anticipated expansion. The imports of non-EC Western Europe will be up a third because of the poor 1981 harvest. Egypt, Taiwan, and Saudi Arabia are increasing purchases, as feed use expands. Moroccan and South Korean imports are forecast up sharply to make up for shortfalls in grain production. In Brazil, recovery in corn output will permit a reduction in imports. Eastern European imports are likely to decline to the lowest level since 1977/78 because of reduced livestock inventories, financial difficulties, and larger domestic coarse grain crops. Mexican takings are expected to be down sharply.

Exports of major competitors are forecast up 7 million tons in 1981/82 because of good 1981 harvests. Canadian exports may reach a record 5.4 million tons, if transportation and handling problems are averted. Western European exports are expected to decline about 1.8 million tons.

The U.S. share of the world coarse grain market is likely to decline in 1981/82. In 1979/80, the U.S. captured 71 percent of the market. With record 1981 harvests in Argentina and South Africa, the U.S. share dropped to 69 percent in 1980/81 and may be 66 percent in 1981/82. (Sally Breedlove Byrne, 202 447-9160)

Oilseeds

A favorable U.S. harvest in 1981/82 will contribute substantially to increased world oilseed production. Output should expand and exceed the 1979/80 record. Price declines in the U.S. soybean sector are forecast. Similar declines are expected for world soybean prices. Global demand prospects for 1981/82 may improve due to improved crush margins. The result may lead to expansion of U.S. exports of soybeans and products in 1981/82.

World Production Record

World oilseed production is expected to reach a record 176.7 million metric tons, 9 percent above the 1980/81 volume and above the 1979/80 record. Soybean supplies are expected to increase to 91.0 million tons, an 11-percent rise but 2.8 percent below the 1979/80 level. The United States accounts for most of the increase in soybean production, with favorable yields boosting production nearly 10 percent. Brazil's soybean production may not surpass the 1980/81 output, assuming a small expansion in acreage and normal yields.

Increases in cottonseed, peanuts, and rapeseed also contribute to the expanding world oilseed production which may exceed the 1979/80 record. The U.S. peanut crop will recover strongly from last year's drought-reduced level and production should reach 1.75 million tons, more than 9 percent of the world total. Two years ago, the United States produced roughly 10 percent of world peanut production. With 4 million hectares planted to rapeseed, China should produce 3.6 million tons, an increase exceeding 50 percent.

A few major oilseed crops are progressing under less favorable weather. Although most of China's oilseed production is good, the peanut crop is deteriorating because of dry weather. China's 1981/82 peanut crop may total

3.4 million tons, a decline of nearly 6 percent. The Soviet Union is expected to produce only 5 million tons of sunflowerseeds. This outturn will be above last year but well below average. The sunflower crop was sown later than 1980's poor crop, increasing the risk that the quantity and quality of harvest will be negatively affected. Excessive rainfall diminished USSR soybean yields and production will not attain previous expectations.

Total available supplies of 44-percent protein content meal in 1981/82 will exceed the 1979/80 record because of large inventories of soybeans and meal. Protein meal production is likely to increase nearly 9.6 percent.

World protein meals and fats and oils

Item	1978/79	1979/80	1980/81 ¹	1981/82 ²
<i>Million metric tons</i>				
Protein meals ³				
Production	83.4	95.8	86.6	94.9
Stocks, change				
in soymeal	-.1	+6.3	+.1	+2.2
Consumption	83.5	89.5	86.5	92.7
Fats and oils				
Production				
Total fats & oils	54.4	58.5	56.8	59.3
Edible vegetable	37.2	41.2	39.6	42.2
Stocks, change				
in soyoil	+.1	+1.1	+.3	+.6
Consumption ⁴	37.1	40.1	39.3	41.6

¹Preliminary. ²Forecast. ³44% protein meal equivalent. ⁴Edible vegetable.

Selected oilseed crop production

Crop	1979/80		1980/81 ¹		1981/82 ²	
	Mil. m.t.	Pct. chg.	Mil. m.t.	Pct. chg.	Mil. m.t.	Pct. chg.
NORTHERN HEMISPHERE						
United States						
Soybean	61.7	+21	49.5	-20	57.0	+15
Sunflower	3.5	+94	1.8	-49	2.6	+44
Peanut	1.8	-	1.1	-39	1.8	+64
USSR						
Sunflower	5.4	+2	4.7	-13	5.0	+6
Canada						
Rapeseed	3.4	-3	2.5	-26	1.9	-24
India						
Peanuts	5.8	-6	6.0	+3	6.0	-
China						
Peanuts	2.8	+17	3.6	+29	3.4	-6
SOUTHERN HEMISPHERE						
Brazil						
Soybean	15.1	+48	15.8	+4	15.8	-
Argentina						
Soybean	3.7	-	3.6	-3	4.1	+14
W. Malaysia						
Palm oil ³	2.4	+18	2.7	+12	NA	NA

- = less than 0.5%. NA = not available. ¹Preliminary. ²Forecast.

³Continous production.

Source: World Crop Production, Foreign Agricultural Service.

Prices of oilseeds, meals, and oils, c.i.f. European ports

Commodity	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Av.
<i>Dollars per metric ton</i>													
Soybeans													
Rotterdam													
1978	239	239	273	290	290	278	266	262	264	271	270	278	268
1979	284	298	310	300	300	322	322	302	292	283	281	279	298
1980	268	271	264	252	260	262	303	309	335	340	367	324	296
1981	323	306	305	316	306	291	294						
Soybean Meal													
Rotterdam													
1978	200	188	215	224	221	208	207	202	208	223	227	227	213
1979	235	238	241	238	240	261	246	236	238	238	251	268	244
1980	244	238	225	218	224	218	243	260	292	310	336	295	259
1981	287	270	265	273	267	248	247						
Soybean oil ¹													
Decatur													
1978	460	477	587	600	631	592	569	575	607	593	547	570	567
1979	566	610	614	590	581	609	644	634	659	603	608	576	608
1980	520	512	478	440	445	475	575	571	573	540	579	523	519
1981	494	475	507	511	466	469	500						
Copra													
N.W. Europe													
1978	380	397	435	405	417	459	452	456	525	552	574	595	470
1979	670	691	690	728	724	725	735	690	613	601	610	595	673
1980	587	565	520	440	400	430	455	435	403	365	414	422	453
1981	433	411	392	385	389	382	367						
Coconut meal													
Hamburg													
1978	170	162	163	166	167	169	173	176	179	186	191	198	175
1979	202	202	205	209	211	218	219	214	222	223	221	223	214
1980	224	226	214	207	210	202	205	208	217	218	224	217	214
1981	220	210	198	194	190	181	180						
Coconut oil													
Rotterdam													
1978	541	561	650	600	596	646	644	657	778	805	835	886	683
1979	966	981	986	1,062	1,056	1,062	1,095	1,002	905	907	907	885	984
1980	885	840	760	660	618	630	648	620	590	580	650	610	674
1981	614	603	574	552	563	570	585						
Peanuts													
N.W. Europe													
1978	562	558	557	635	660	667	634	615	638	654	645	628	621
1979	636	621	605	628	597	540	580	560	535	520	472	480	565
1980	480	500	485	461	442	440	470	507	NQ	NQ	NQ	620	489
1981	627	650	NQ	2750	750	715	700						
Peanut oil													
Rotterdam													
1978	956	910	1,020	1,127	1,128	1,106	1,042	1,044	1,210	1,194	1,191	1,022	1,079
1979	976	969	972	970	925	893	913	867	872	812	775	720	889
1980	744	778	720	708	733	713	860	914	928	934	1,093	1,180	859
1981	1,110	1,100	1,115	1,105	1,185	1,185	1,160						
Rapeseed													
N.W. Europe													
1978	294	298	319	330	NQ	321	287	258	274	286	297	299	297
1979	284	306	317	300	304	318	324	327	326	318	311	306	313
1980	304	304	285	270	290	306	329	319	321	319	363	2323	311
1981	319	299	299	315	304	294	302						
Fishmeal													
Hamburg													
1978	452	434	434	416	410	408	401	405	387	384	398	390	410
1979	381	382	381	366	368	393	415	400	394	394	415	450	395
1980	491	518	478	470	505	484	479	490	501	512	568	557	504
1981	541	518	507	501	504	485	470						
Palm oil													
N.W. Europe													
1978	514	558	598	603	624	654	622	585	615	623	604	604	600
1979	636	694	688	666	665	675	678	650	640	602	620	630	654
1980	662	683	637	611	584	555	545	518	501	507	585	622	584
1981	625	640	620	588	599	640	600						

NQ = no quote. ¹F.o.b. Decatur. ²2 weeks. Source: Oil World, various issues.

Use To Increase

World use of high protein meals should expand slightly more than 7 percent in 1981/82. The world soybean crush is expected to increase 4.6 million tons, 6 percent, to accommodate the rise in meal use. The United States may increase its crush to slightly below the world rate, because domestic use of soybean meal is expected to rise 5 percent, following a 10-percent decline in 1979/80. Thus, U.S. carryover stocks of soybeans during 1981/82 are again expected to rise sharply, reaching 11.7 million tons, up 2.3 million or 25 percent.

In the EC, use is expected to gain modestly. The crush margins are likely to improve, as soybean prices decline and soybean oil demand improves slightly. A strong dollar and the extent of economic recovery are factors that may alter the outlook in coming months. In Spain, soybean meal use is projected to increase 4.6 percent. The domestic grain crop has suffered a drought, and greater quantities of protein meal will be required for the expanding poultry sector.

In Eastern Europe, use is expected to rise, and imported feedstuffs are desperately needed to maintain feeding activity. Trade policy may alter the level of imports because of limited hard currency reserves. Due to a shortage of plant-protecting chemicals, the rapeseed crop in Poland was less than anticipated, adding to import requirements. Also, adverse weather damaged the soybean and sunflowerseed crops.

The Soviet Union may be the largest market for soybeans and soybean meal in 1981/82. Demand for livestock feed continues because critically short supplies will be exacerbated by reduced grain output in 1981/82. Also, Soviet soybean output may fall below earlier expectations.

Expansion of poultry production throughout Latin America is encouraging use of high protein meals. In Mexico, domestic output of oilseeds is expanding, reducing some of its import requirements. Venezuela may import greater supplies of soybeans and meals from the United States in the coming year.

U.S. Exports To Rise

U.S. exports of soybeans are expected to rise 15 percent in 1981/82. The heavy competition from Brazilian exports of soybeans and products is expected to diminish. Brazil has crushed at an accelerated rate for the first 5 months of calendar year 1981 and is maintaining crush levels by importing soybeans. While Brazil's soybean meal exports jumped nearly 42 percent in 1980/81, soybean meal exports in 1981/82 are expected to remain at last year's level. Brazil's soybean exports may decline in contrast to the large increase in 1980/81.

The large availability of U.S. soybean supplies is likely to lower the U.S. season average price to \$230 per metric ton, almost 17 percent below last year. Prices in Rotterdam are also falling and soymeal is cheaper relative to corn in the EC. Price declines are likely to further stimulate import demand. (Jan A. Lipson, 202 447-9160).

Meat

Total Production to Show Little Change

Total world meat production in 1981 is forecast to remain near last year's level or decrease slightly, because a further increase in global poultry production may not quite offset a decline in pork output. A cost-price squeeze and weak economic conditions in some countries may continue to hurt livestock operations for the rest of the year, although the large world grain crop in prospect for 1981/82 should lower feed grain costs, especially in the United States.

Beef Variations Offsetting

Total production of beef and veal, at 41 million metric tons in 1981, is not expected to change from the previous year. Production increases in the United States, Canada, Mexico, and Brazil should make up for declines in the EC-10, Australia, Argentina, and Eastern Europe. Beef herds in most countries are in their expansion phase.

Per capita consumption of beef and veal is forecast to increase in the United States and Canada in 1981 after declining for the past several years. The higher beef consumption will offset some of the decline in per capita pork consumption. Declining per capita beef consumption is expected in several of the major producers in 1981, principally Australia, 12 percent, and the EC, 2 percent.

U.S. production is forecast to increase about 3 percent in 1981. The number of fed cattle slaughtered should remain near 1980's level, with much greater nonfed slaughter accounting for the increase in production. U.S. imports of beef and veal are expected to decline about 10 percent in 1981.

Australia and New Zealand are the major suppliers of fresh or frozen beef and veal to the United States, accounting for 56 and 23 percent in 1980, respectively. The expected upturn in Australia's livestock cycle was delayed by the drought, and lower beef production has reduced amounts available for both consumption and

Per capita beef and veal consumption

Country	1978	1979	1980 ¹	1981 ²
	Kg. carcass wt.			
United States	55.9	49.2	48.2	48.6
Canada	47.0	40.7	40.4	41.7
Mexico	15.1	14.7	14.7	14.8
Argentina	94.1	89.7	89.5	89.7
Brazil	19.0	17.8	16.7	16.5
EC-10	25.9	26.1	25.8	25.2
USSR	27.2	27.5	26.6	26.2
Japan	4.7	4.9	4.9	5.0
Australia	72.1	52.3	50.1	44.2

¹Preliminary. ²Forecast.

Sources: Foreign Agricultural Service, Economic Research Service.

export. Australian beef output is forecast to remain near or below this year's level, and New Zealand's production is also expected to be lower, reducing amounts available for export. Canadian production may continue increasing by 3 percent.

Lower prices for imported boneless cow beef in the United States (mainly for use as grinding beef) are also holding Australian exports down. The lower U.S. prices are mainly the result of increasing competition from plentiful nonbeef supplies, ample domestic beef production, and a stagnant economy. (Linda M. Bailey, 202 447-9160)

Pork Output To Decline

After rising steadily for the past 4 years, pork output in the major producing regions is forecast to decline in 1981, led by a 7-percent drop in U.S. output. Production is likely to fall in major regions, as producers cut back breeding herds and pig crops due to higher feed costs and poor returns. In the United States, output in the second half of 1981 is forecast to decline sharply from a year ago as a result of producer losses from mid-1979 into 1981. Farrowing intentions as of June 1 suggest that U.S. production may continue to drop sharply in the first half of 1982. Production in 1981 is also forecast to fall in Eastern Europe, Canada, and Japan. Little change is estimated in 1981 output in the EC-10 and the USSR. In 1982, output in Germany and France, the EC-10's largest pork producers, is estimated to rise slightly. Production in Japan is also forecast to increase.

Per Capita Pork Use To Decline

Per capita pork consumption in 1981 in major producing areas also is likely to decrease, reflecting lower output and weak economic conditions. Per capita pork use in the United States is forecast to decline, following increases the last few years. In the EC-10, pork use per person is estimated to taper off, reflecting weak demand and stagnant output. Per capita use in many nations in Eastern Europe is forecast to change little, although it is likely to drop sharply in Poland because of severe feed

shortages. Per capita consumption in the USSR in 1981 is estimated to change little as pork output stagnates. Asia's largest per capita pork consumer, Taiwan, is also likely to see lower consumption. In addition, Japanese use is falling slightly as lower output and higher prices limit sales.

In the United States, Omaha prices for barrows and gilts (220 to 240 lb., liveweight) were higher through mid-1981, compared with first-half 1980, reflecting lower U.S. output. Price increases have been restrained, however, by large frozen pork stocks, abundant beef and poultry supplies, and a continued squeeze on consumer budgets.

Poultry Expansion To Continue

Poultry output in major producing regions in 1981 is forecast to rise around 5 percent, about the same increase as in 1980. Relatively strong import demand, especially from the Mideast and North Africa, cheaper poultry prices relative to pork, and poultry's greater feed efficiency are stimulating increased output in many areas, despite higher feed costs.

U.S. poultry output in the last half of 1981 and into 1982 is expected to rise, aided by strong demand for exports and lower feed costs. EC-10 output in 1981 is estimated up 5 percent, encouraged by strong Mideastern import demand and aided by export subsidies. Poultry output in 1982 in the EC-10 is likely to continue to expand, although at a slower rate. Brazilian output in 1981 is also likely to rise, stimulated by growing demand for exports. Higher feed costs, however, are likely to slow the rate of increase below 1980's pace. Japanese production and imports will be larger in 1981, because the trend towards more poultry meat consumption continues; output and import gains are also likely in 1982.

Given the continued increase in poultry output in 1981, per capita poultry consumption is estimated to increase in most countries, including the United States, EC-10, USSR, and Japan. Canadian per capita consumption, however, may decline. In the United States, farm prices for broilers for the first half of 1981 remained above a year earlier, despite larger production, because of strong exports and red meat supplies that dropped below year-earlier levels in late spring and early summer. (David B. Young, 202 447-9160)

Per capita pork consumption

Country	1978	1979	1980 ¹	1981 ²
Kg., carcass wt.				
United States	28.1	31.8	34.3	31.7
Canada	25.9	29.2	31.7	29.2
Mexico	6.5	6.4	6.7	6.7
Germany, Fed. Rep.	47.9	49.0	50.5	50.7
France	34.2	35.3	36.3	36.3
Netherlands	34.8	37.8	37.8	39.9
Total EC-10	32.3	33.5	34.3	34.4
Germany, Dem. Rep.	51.1	53.2	54.4	54.6
Poland	39.7	38.5	37.3	31.0
USSR	20.5	20.5	19.4	18.0
Taiwan	31.3	39.5	37.3	36.9
Japan	12.4	13.6	14.2	14.0

Per capita poultry consumption

Country	1978	1979	1980 ¹	1981 ²
Kg., carcass wt.				
United States	26.1	27.9	28.7	29.5
Canada	21.8	22.9	22.1	22.1
Venezuela	15.1	15.0	15.1	15.6
Brazil	7.0	8.6	9.8	11.1
France	15.8	16.2	16.9	17.3
Total EC-10	13.2	13.2	13.5	13.8
USSR	7.5	8.2	8.6	9.1
Hong Kong	19.0	21.0	20.4	21.2
Japan	9.6	10.1	10.3	10.5

¹Preliminary. ²Forecast.

Source: Foreign Agricultural Service.

Dairy

Total milk output in the major producing regions is forecast to be up in 1981. Reductions in the USSR, Poland, Australia, and New Zealand will be offset by gains in the United States and Western Europe. The United States has sought to solve its surplus butter buildup by selling butter to New Zealand.

Milk Production Continues Up

Total milk production continues to increase, reaching 410 million metric tons, up 1 percent in 1981. For the most part, the rise in output has occurred because of increasing production per cow. Notable exceptions are in Australia and the USSR, where effects of the drought in Australia and feed problems in the USSR have reduced output. World stocks of dairy products should increase in 1981 because of the large buildup in the United States. However, foreign stocks, held mainly in the EC-10, are expected to decline.

The USSR, with 22 percent of world's milk production in 1981, has been able to maintain cow inventories on state and collective farms at least through the end of the summer. But, because of feed supply problems, output per cow has been declining, and therefore total milk production is forecast to be lower. Poland's output of milk has also dropped because of limited feed supplies and reductions in the dairy herd.

Milk production continues to increase in the EC, with gains of 2 percent expected in 1981. The target price for fluid milk was increased 9 percent in April to \$13.21 per cwt. The intervention price for butter and nonfat dry milk rose 9 percent to \$1.73 and \$0.72 a pound, respectively. The producer tax on milk deliveries has been set at 2.5 percent of the target price for 1981/82, under the same conditions as the current basic co-responsibility levy.

U.S. production of milk is likely to be 2 percent higher in 1981. Per capita consumption of fluid milk products has been declining about 2 percent a year for the last 5 years. Per capita consumption of all dairy products should remain relatively unchanged, however, because of higher per capita consumption of cheese and other dairy products.

United States Sells Surplus Butter

Total butter production in the major producing regions is likely to remain about the same in 1981 as in 1980. Output in the United States is one exception. An increase of 10 percent has been forecast, with most of the increase going to boost already large stocks. Because of the large stock buildup, the United States has contracted to sell New Zealand approximately 100,000 metric tons of butter from Commodity Credit Corporation (CCC) stocks for \$155 million (70 cents a pound, f.o.b. warehouse). This amounts to 40 percent of projected 1981 ending stocks.

New Zealand will process and market the butter as butter oil, and the sales agreement was made with the understanding that the Soviet Union would not be sold any U.S. butter. The United States has also agreed not to sell butter on the world market during the period of the agreement (September 1981-June 1982); however, emergency food relief sales can still be made. The Catholic Relief Services is contracting to buy 9,000 metric tons of surplus dairy products for distribution in Poland. The USSR has also been seeking butter on the world market, because its production is down with the decreased availability of milk.

Cheese production in the major producing regions is also forecast to be up 2 percent in 1981. Demand for cheese has been rising, as the prices of competitive food items are increasing relative to cheese prices. (Linda M. Bailey, 202 447-9160)

Milk production

Country	1978	1979	1980 ¹	1981 ²
Million metric tons				
United States	55.1	56.0	58.3	59.8
Canada	7.5	7.6	7.9	8.1
Mexico	6.9	7.1	7.0	7.2
Argentina	5.2	5.3	5.6	5.5
Brazil	10.5	10.1	10.2	10.6
France	32.2	33.4	35.1	36.5
Germany, Fed. Rep.	23.3	23.9	24.8	25.3
United Kingdom	15.9	15.9	16.2	16.3
Total EC-10	108.5	111.1	114.3	116.1
Poland	17.5	17.3	17.0	16.4
USSR	94.7	93.3	90.5	90.0
India	25.0	25.7	27.0	29.0
Australia ³	5.6	5.8	5.6	5.2
New Zealand ⁴	6.1	6.5	6.8	6.6
Other	53.7	54.6	55.5	56.0
Total	396.3	400.4	405.7	410.5

¹Preliminary. ²Forecast. ³Year ending June 30. ⁴Year ending May 31.

Source: Foreign Agricultural Service.

Sugar

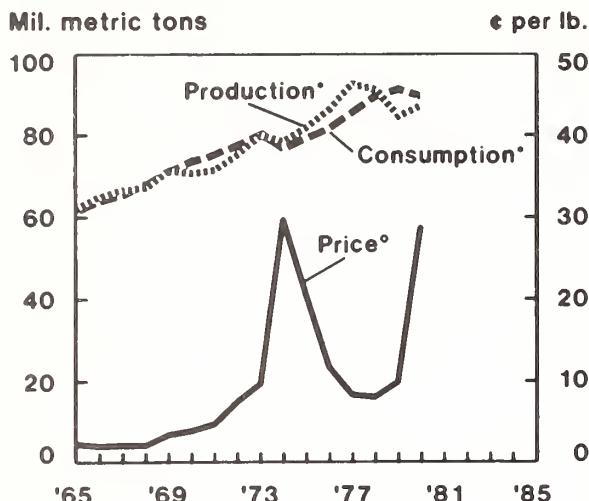
Record Production; Prices Falling

Early indications of the 1981/82 world sugar crop suggest a substantial rise in production, possibly exceeding the 1977/78 record of 92.5 million tons. Much depends on the weather (and other circumstances) in Europe, Brazil, and Cuba (these three areas produce approximately two-fifths of the world's sugar). U.S. beet and cane sugar production in 1981/82 is expected to rise to 6.1 million tons (raw value), up more than 5 percent from last season.

World sugar consumption is forecast at 90 to 92 million tons, depending upon the availability of supply. If production reaches over 92 million tons, world sugar stocks will likely increase over 1 million tons, resulting in further downward pressure on prices. However, should production lag behind consumption for a third straight year, prices could rise sharply.

In anticipation of a large world sugar outturn, the International Sugar Agreement (ISA) daily indicator price fell below 12 cents a pound in early September. Another price depressing factor might be exporters'

World Raw Sugar Production, Consumption, and Price



*Crop year beginning September.

°Calender-year average of daily international Sugar Agreement prices.

USDA

Neg. ESS 230-80 (4)

efforts to sell sugar in advance of 1982, when the ISA's export quotas are likely to be restrictive.

U.S. Imports and Use Fall

U.S. sugar consumption in 1981, both total and per capita, continues the decline begun in the early 1970's. Per capita use is projected to fall by 5 percent to just under 80 pounds of refined sugar. This compares with the peak of 102 pounds in 1972 and 84 pounds last year. However, deliveries of high fructose corn syrup (HFCS), an alternative to sugar, could be up as much as 20 percent from last year's 2.2 million tons.

The mix of countries exporting sugar to the United States has also been altered over the past 4 to 5 years. The dominance of the Philippines and the Dominican Republic has been diluted, because U.S. sugar refiners receive more of their imports from "secondary" suppliers (smaller markets) than they did 4 years ago. In addition, South America—particularly Brazil and Argentina—has become the largest supplier of sugar to the United States. Declining world sugar prices triggered a U.S. import fee of 1 cent a pound, effective September 11, in addition to the current duty of 0.625 cents a pound (raw sugar).

Drawback payments (rebates off fees and duties paid on previously imported raw sugar) to U.S. exporters of refined sugar, and higher prices, have made possible unprecedented levels of sugar exports. Mexico, Peru, Turkey, Chile, and Venezuela have been the major markets through the first 9 months of fiscal 1981. U.S. refined sugar exports this year are expected to reach 860,000 tons, valued at \$550 million. This phenomenon is expected to continue through 1982, because high drawback payments will be in effect through that time. (Steve Milmoe and Robert Barry, 202 447-9160)

Coffee and Cocoa

Frost Bites Lagging Coffee Prices

The estimate of world coffee production for 1980/81 was raised in July to 82.7 million bags (60 kilograms/bag) on the basis of upward revisions in Colombia, the Ivory Coast, Kenya, and Costa Rica. The outlook for 1981/82 calls for significantly higher production—a record 95.3 million bags. Even with export levels and domestic consumption in producer countries up 3 to 4 million bags, the 33-percent increase in global stocks is expected to maintain downward pressure on prices this fall.

The July frost in Brazil only slightly damaged the 1981 crop, now mostly harvested. The 1981 Brazilian crop will likely produce 31 to 35 million bags. Production in 1982, however, may drop to 15 to 18 million 60-kilo bags from the prefrost forecast of 27 to 31 million. Prices of green coffee have not increased much over prefrost levels. Grocery store prices for a 1-pound can of roasted coffee in the United States will likely average around \$2.50 in the next few months, near the prevailing recent price.

Another 1.4-million-bag reduction in the export quota of member countries was approved by the International Coffee Organization (ICO) in July (see World Food and Trade Policy Developments section). This is the fourth reduction this fiscal year and brings the total decrease for October 1980-September 1981 to 4.2 million bags. World coffee trade in 1980/81 is now projected to reach 59.4 million bags—a 4-percent drop from the previous year.

World coffee exports

Country	Average				
	1971/72- 75/76	1978/79	1979/80	1980/81 ¹	1981/82 ²
Million bags (60 kg.)					
North & South America					
Brazil	16.9	13.7	14.0	16.5	17.5
Colombia	7.3	11.8	11.9	9.8	10.5
El Salvador	2.4	3.4	2.7	2.2	2.2
Guatemala	2.0	2.6	2.1	2.0	2.1
Mexico	2.2	3.1	2.3	2.0	2.2
Costa Rica	1.3	1.5	1.3	1.4	1.5
Ecuador	1.0	1.6	1.4	1.1	1.2
Africa	19.0	16.7	15.7	14.7	15.4
Ivory Coast	4.2	4.3	3.5	3.7	4.0
Uganda	3.1	2.4	2.2	1.6	1.8
Cameroon	1.5	1.6	1.6	1.5	1.5
Kenya	1.2	1.2	1.4	1.3	1.3
Ethiopia	1.2	1.4	1.3	1.2	1.2
Madagascar	1.1	1.0	1.0	1.1	1.2
Zaire	1.2	1.1	1.0	1.0	1.1
Angola	3.2	1.2	1.0	.8	.7
Asia & Oceania	3.3	6.0	6.2	5.7	6.0
Indonesia	1.6	3.7	3.8	3.2	3.5
India	.9	1.1	1.2	1.4	1.3
World total	59.1	64.7	62.1	59.4	62.9

¹Estimated. ²Forecast.

Source: Foreign Agricultural Service (FCOF 4-81).

U.S. imports are projected to fall 7 percent to 17.1 million bags, the lowest since fiscal 1978. Both beans and soluble coffee are expected to be down 6 to 8 percent, while imports of roasted coffee will be off over 50 percent.

Roastings during October 1980-March 1981 were 12 percent above a year earlier, reducing high-priced beginning stocks. However, they are expected to fall 3 percent below year-earlier levels during April-September.

U.S. Cocoa Imports Rebound In Fiscal 1981

The world cocoa crop in 1981/82 will likely exceed last year's record 1.65 million tons. Large-scale new plantings coming into bearing and young trees increasing in productivity in the Ivory Coast, Brazil, and Malaysia are expected to keep world production in an expansionary trend for several years. With the crop again exceeding estimated consumption, global stocks are expected to increase over 110,000 tons. Cocoa prices averaged only 96 cents a pound in August, down from the peak of 190 cents in fiscal 1977 and 123 cents last year, but up from 80 cents in July.

Lower prices to manufacturers in fiscal 1981 have stimulated U.S. imports of beans. U.S. imports are projected to rise nearly two-thirds to 230,000 tons. In addition, grindings are also above year-ago levels, and some manufacturers have increased the size of their chocolate bars. Both total use and per capita consumption in the United States are expected to rise significantly over last year.

The International Cocoa Agreement was implemented August 1, 1981, despite the absence of the Ivory Coast (the world's largest producer) and the United States (the largest consumer). This has temporarily reversed the bearish price trend. (Steve Milmoe and Fred Gray, 202 447-9160)

Cocoa bean production and grindings

Country	1977/78	1978/79	1979/80	1980/81 ¹
1,000 metric tons				
Production				
Ivory Coast	304	312	373	400
Brazil	283	314	296	337
Ghana	271	265	296	270
Nigeria	206	139	170	155
Cameroon	107	107	122	118
World total	1,511	1,498	1,630	1,650
Grindings				
West Germany	144	142	151	156
United States	163	160	142	180
Netherlands	126	127	133	132
United Kingdom	72	61	65	75
World total	1,391	1,437	1,480	1,550

¹Forecast.

Sources: Foreign Agricultural Service; Gill and Duffus.

Cotton

Record World Production To Boost Stocks

A prospective 8-percent gain in world production, led by the largest U.S. crop since 1953 and coupled with only a modest gain in global cotton use, is estimated to enlarge 1981/82 world ending stocks more than 2.5 million bales. World trade is expected to increase modestly, based on larger U.S. exports and higher world imports.

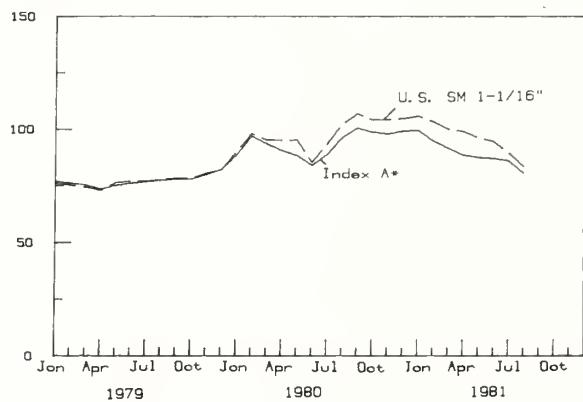
World cotton production in 1981/82 is forecast at a record 70.6 million bales. Most of the gain will come from a 39-percent larger U.S. crop of 15.5 million bales, based on a strong recovery in yields and expanded harvested area. Production outside the United States is estimated to rise about 1.5 percent to 55.1 million bales. Higher production is expected in China, because area is estimated to increase about 4 percent, and yields in the south are likely to recover because of improved weather. Larger crops are also forecast for India and Pakistan, but a smaller, although still large crop, is likely in the USSR.

Global cotton consumption in 1981/82 is forecast to rise more than 2.5 percent to a record 67.5 million bales, spurred partly by higher U.S. cotton use, as U.S. economic growth increases and lower prices improve cotton's competitiveness relative to synthetics. Foreign consumption is estimated to increase about 2.5 percent to 61.3 million bales, with major gains in China and East Asia.

World cotton exports in 1981/82 are forecast to increase about 4 percent to 20.9 million bales. U.S. exports are estimated up nearly 20 percent, 7 million bales, because of larger U.S. supplies, more competitive prices, and increased foreign imports. Major factors affecting U.S. exports will be the size of Chinese cotton imports and the rate of recovery in the presently depressed world textile economy.

Global ending stocks in 1981/82 are estimated to rise to 24.6 million bales, allowing the world stocks-to-use

Cotton Prices, C. I. F. Northern Europe
Cents/lb.



* Liverpool cotton service, average of 5 lowest prices of 10 selected growths.

World cotton production, trade, and consumption¹

Country	1978/79	1979/80	1980/81 ²	1981/82 ³	1978/79	1979/80	1980/81 ²	1981/82 ³
<i>Million 480-lb. bales</i>								
	<i>Production</i>				<i>Exports</i>			
United States	10.9	14.6	11.1	15.5	6.2	9.2	5.9	7.0
USSR	12.3	13.1	14.3	13.5	3.8	3.7	4.3	4.3
China	10.0	10.1	12.4	13.3	0.1	—	—	—
India	6.2	6.0	6.1	6.3	0.2	0.4	0.5	0.2
Pakistan	2.1	3.4	3.3	3.4	0.2	1.2	1.4	1.3
Brazil	2.7	2.6	2.7	2.8	0.1	—	—	—
Egypt	2.0	2.2	2.4	2.2	0.7	0.8	0.7	0.7
Turkey	2.2	2.2	2.2	2.3	1.0	0.6	1.0	0.9
Mexico	1.6	1.5	1.6	1.6	0.9	0.9	0.8	0.9
Central America	1.6	1.1	1.2	1.2	1.5	1.0	1.1	1.1
Sudan	0.7	0.5	0.4	0.4	0.8	0.4	0.4	0.4
Western Europe	0.9	0.7	0.8	0.8	0.3	0.2	0.2	0.2
Eastern Europe	0.1	0.1	0.1	—	—	0.1	—	—
Japan	—	—	—	—	—	—	—	—
Korea, Republic	—	—	—	—	—	—	—	—
Hong Kong	—	—	—	—	0.1	0.1	0.1	0.1
Taiwan	—	—	—	—	—	—	—	—
Other	6.8	7.5	6.7	7.6	4.0	4.0	3.6	3.8
World total	60.1	65.6	65.3	70.6	19.9	22.6	20.0	20.9
	<i>Imports</i>				<i>Consumption</i>			
United States	—	—	—	—	6.4	6.5	5.9	6.2
USSR	0.4	0.3	0.3	0.3	9.0	9.1	9.3	9.4
China	2.2	3.9	3.0	3.0	12.6	13.8	15.2	15.9
India	—	—	—	0.2	5.5	5.8	6.2	6.3
Pakistan	—	—	—	—	1.9	2.0	2.0	2.0
Brazil	—	—	—	—	2.5	2.6	2.5	2.6
Egypt	0.1	—	—	—	1.3	1.3	1.3	1.4
Turkey	—	—	—	—	1.4	1.2	1.3	1.4
Mexico	—	—	—	—	0.8	0.8	0.7	0.7
Central America	—	—	—	—	0.2	0.1	0.1	0.1
Sudan	—	—	—	—	0.1	0.1	0.1	0.1
Western Europe	4.7	5.3	4.5	4.7	5.4	5.7	5.3	5.4
Eastern Europe	3.3	3.3	3.3	3.3	3.4	3.4	3.4	3.4
Japan	3.4	3.3	3.2	3.3	3.3	3.4	3.2	3.3
Korea, Republic	1.4	1.6	1.4	1.6	1.3	1.6	1.5	1.6
Hong Kong	0.8	1.2	0.6	0.7	0.9	1.1	0.6	0.7
Taiwan	0.9	1.2	0.9	1.0	1.0	1.0	0.9	1.0
Other	2.6	2.9	2.8	2.4	5.8	6.0	6.2	6.0
World total	19.8	23.0	20.0	20.5	62.8	65.4	65.7	67.5

— = negligible. ¹Year beginning August 1. ²Preliminary. ³Estimated.

Source: Foreign Agricultural Service.

ratio to increase to more than 36 percent from about 33 percent in 1980/81. Most of the gain, however, will come from a large buildup in U.S. ending stocks which will almost double. Ending stocks outside the United States are estimated to increase only slightly, with the stocks-to-use ratio at less than 32 percent.

The Northern European Outlook "A" Index of cotton prices has continued to decline since May, falling to 87.1 and 86.1 cents a pound, respectively, in June and July, and dropping to 80.7 cents in August (the Index was

changed in August and now reflects M 1-3/32 inch instead of SM 1-1/16 inch). The prospective record world crop, along with the forecast large buildup in stocks, encouraged the decline in prices. The price of U.S. SM 1-1/16 inch, c.i.f. Northern Europe, also declined since May, dropping to 94.6 and 89.8 cents, respectively, in June and July. The price of U.S. M 1-3/32 inch, c.i.f. Northern Europe, dropped sharply in August to 83.7 cents, based on the prospective large U.S. crop. (David B. Young, 202 447-9160)

REGIONAL AGRICULTURAL DEVELOPMENTS

United States

Crop Production Bounces Back

Favorable July and August weather improved 1981 crop production prospects. In the spring and early summer, wet conditions caused farmers major problems in the eastern Corn Belt, while the western Corn Belt was still showing the effects of last year's drought. However, near-ideal weather in midsummer changed the crop production outlook. The September crop report indicated total U.S. production will be 13 percent above last year's drought-damaged output. All major field crops, including hay and forage, are showing an increase. Thus, even with a generally reduced 1980/81 carryover, the increase in 1981 production will be large enough to raise total supplies of grains, soybeans, and cotton in 1981/82.

Expanding needs of major importing countries mean larger purchases of grains, oilseeds, and cotton. Thus, U.S. exports will rise in 1981/82. However, growth in domestic use will be moderate, and ending stocks will increase. Crop prices will weaken from the pressure of a large harvest and average a little lower for 1981/82 than this season's.

Meat Supplies To Remain Large

Livestock farmers are assured of a large supply of lower cost feed. However, feeders will be slow to respond, because other costs of production, such as fuel and interest rates, remain high. Also, with the lackluster performance of the U.S. economy and little rise in real consumer incomes, demand for meat has been weak this year.

Beef production in the second half will be a little larger than a year earlier, while broiler output will be up 5 to 10 percent. However, pork production is declining about 7 percent, reflecting low profits in 1980. Total meat production late in the year will be running below a year earlier. This contrasts with a 3-percent increase during January-March. Livestock prices rose about midyear, as meat supplies tapered off. Recent price increases will be maintained through the second half.

Food Prices Gain Less Than Inflation

Food prices are rising 8 to 9 percent this year, about the same as in 1980. Prices of all goods and services are increasing by more than 10 percent. About two-thirds of the rise in 1981 food prices reflect increases in the farm-to-retail price spread. Only about one-fourth of the expansion is in the farm value of foods. The balance of the change in prices this year will come from higher costs of fish and imported foods. (Don Seaborg, 202 447-8376)

Canada

Record 1981 Harvest Expected

Ideal summer weather throughout most of Canada has resulted in good crop development. Record or near-record yields, coupled with a record-large area planted, are expected to boost total cereal grain production to about 50 million tons, 23 percent above last year's drought-affected crop. Total oilseed production will decline only 10 percent, in spite of a 23-percent reduction in area planted.

Livestock Output Stabilizes

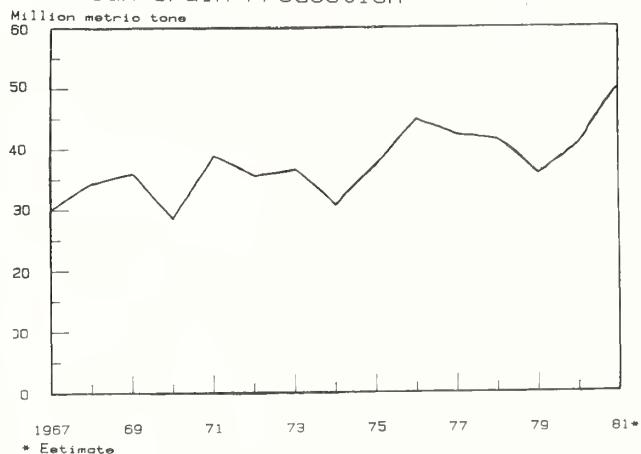
Hog numbers have leveled off after a vigorous 5-year expansion. In spite of a 2-year cost-price squeeze on hog producers, hog numbers have not declined as anticipated. Explanations include rapidly increasing pork exports and a recovery of market prices, both partially resulting from the decline in U.S. pork output. In addition, federal and provincial government stabilization payments have somewhat insulated producers from depressed market prices.

Cattle numbers are forecast to increase slightly during 1981, after bottoming out in 1980. In response to high interest rates and continued competition from pork, cattlemen are taking a cautious attitude towards herd rebuilding. Poultry production will decline about 2 percent in 1981, following production-quota cutback decisions by the Canadian chicken and turkey marketing agencies.

Foreign Trade Expands

Both the volume and value of Canadian agricultural imports and exports will rise in 1981. Imports from the United States, which have been increasing about 8 per-

Canadian Grain Production



cent annually for the past 5 years, are forecast to rise 20 percent to \$2.1 billion in 1981. Canada is now a billion-dollar market for U.S. fruits and vegetables. Imports of beef and slaughter cattle from the United States have also increased in recent months, following Canada's lifting of the DES certification requirements.

Canadian agricultural exports are expected to expand somewhat in 1981, after enjoying a rapid 37-percent increase to C\$8.2 billion in 1980. Exports of wheat and pork are leading the advance. A weaker Canadian dollar, which recently declined to a 50-year low against U.S. currency, will continue to give Canadian exports a favorable price advantage in U.S. and world markets. (Ron Trostle 202 447-8378)

Western Europe

Government policies in Western Europe continue to reflect slow business conditions and high inflation rates. These factors have worked to limit growth in livestock output and the need for imported feed ingredients in 1980/81. Serious drought in Spain may favor an increase in feed imports in 1981/82.

Recession May Be Ending

Recession continues in Western Europe, but there have been indications of a rise in business confidence. The basis is the depletion of inventories of finished goods, suggesting that toward the end of the year there could be a rise in the use of plant capacity and output. At present, however, the climate is one of caution reinforced by government policies. Balance-of-payment concerns, for example, have caused several countries to dip into currency reserves rather than borrow further. This exacerbates already-tight domestic credit. In late May, Italy also invoked a 30-percent deposit scheme on imports other than wheat and petroleum products.

Hesitancy in the Feed Industry

The economic situation has produced a somewhat stagnant outlook for livestock sectors other than poultry (where growth is based on exports). This circumstance, in addition to the constraints imposed by monetary policies and declining exchange rate parities with the U.S. dollar (notably in the United Kingdom and Italy), caused feed compounders to replenish stocks only as needed. In Italy, for example, imports of corn during October 1980-March 1981 (before the import deposit scheme), fell 60 percent from a year earlier. Such developments are explained in part by greater reliance on domestic grains in the short run (following 1980's record output) and by the substitution of cheaper EC rapeseed meal and U.S. corn gluten feed for some soybean meal. Nevertheless, there is evidence that total feeding of protein is also down.

Import Plans Await 1981 Crop

The import stance of feed compounders for 1981/82 will be shaped in the coming months, as exact results of Western Europe's 1981 crop harvest are known. Weather

conditions were variable during the growing season, causing crop estimates to fluctuate. Early reports from France, West Germany, and Italy indicate a decrease from 1980 of possibly 2.7 million tons of soft wheat and barley. The outlook for corn in France is also one of decline—possibly 0.7 million tons below 1980. Italian sources, however, predict a record corn crop, perhaps even enough to offset the volume decline in France. The major production gain in the EC is sugarbeets. Area expanded significantly because of favorable world prices, which enhanced export potential. Heavy yields and high sugar content are expected. Outside the EC, a dry, hot summer in Spain brought wheat and barley production down about one-third from 1980, and sunflowerseed by one-half.

Outlook for U.S. Exports Brightens

Not surprisingly, total U.S. farm sales to Western Europe (adjusted for transshipments) are estimated to have declined from \$12.5 billion in 1979/80 to about \$11.7 billion in 1980/81. An increase is expected in 1981/82, with severe drought in Spain being the major factor propping up prospects. In Italy, the second largest EC customer for U.S. corn, the import deposit scheme is due to end October 1, but a very large domestic corn crop and the modest growth expected in the livestock sector would lower corn imports.

A current EC policy debate concerns the continuation of duty-free imports of nongrain feeds—a major U.S. export to the EC. Several factors, however, work against revision of the duties. EC livestock producers worry about the effects of increased feed costs in a period of high inflation. There is concern about possible trade retaliation by suppliers of nongrain feeds. Also, there is hesitancy to implement major policy changes while France and Italy adjust to new governments, and Greece prepares for a national election in October, in which the major opposition party is anti-EC. (Miles Lambert, 202 447-8289).

Australia

Production Expands

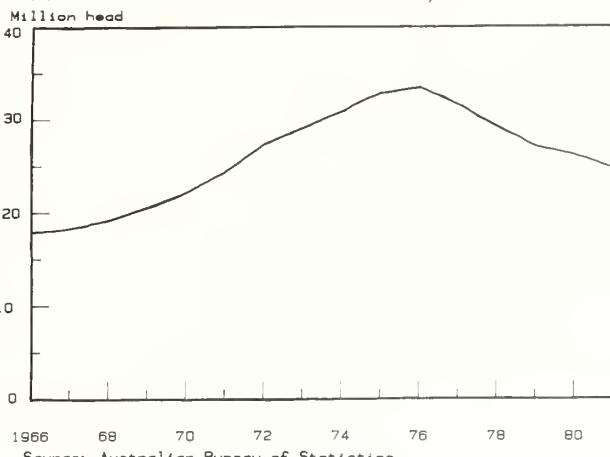
Australian agriculture is recovering from a widespread drought. Total production is expected to expand about 8 percent in 1981/82. Crops will account for all of the increase, rising 18 percent, while livestock may be down 4 percent.

Agricultural exports, which make up 45 percent of total exports, will increase in volume but possibly decline in value because of anticipated lower world prices. The domestic demand for food should continue strong, as the economy grows at a 3- to 4-percent annual rate, and inflation continues below the 10-percent rate.

Wheat Crop Gains

Wheat is the major crop and production in 1981/82 is estimated to increase 48 percent from last year. Timely

Australian Cattle Inventory



rains prior to June planting facilitated an increase in planted area, which rose to a record 11.9 million hectares. Frequent rains since the crop was sown have improved soil moisture supplies considerably over last year and increased the possibility of obtaining a good yield when the crop is harvested in November and December. Wheat exports are expected to increase less than production, as stocks are rebuilt to normal pipeline levels. Less buoyant world prices may reduce wheat export earnings. Coarse grain production is estimated to increase 30 percent because of gains in both area and yields.

Meat Output Declines

Meat production during 1981/82 is likely to decline because cattle and sheep inventories were reduced by extremely poor pasture and range conditions. After declining since 1976, March 1981 cattle numbers were down an additional 1 percent from a year ago. Another reduction in the cattle herd is in prospect for this year. The impact of weather plus declining prices has tempered producers' optimism. Sheep and lamb numbers also declined 4 percent for the year ending March 31, after increasing for 2 years. Exports of beef to the United States, the largest market, will likely decline as supplies contract. (Allen Johnson, 202 447-8378)

Japan

Japan is hopeful of balancing rice production and consumption this year. Growth in personal consumption expenditures has stimulated some increases in demand for livestock products but a sluggish domestic industry has been unable to meet the need. Sharp increases in imports of pork, chicken, and other livestock products have resulted. The Mediterranean fruit fly infestation in California could temporarily affect about \$100 million in fresh fruit trade with Japan.

Surplus Rice Problem Persists

Japan continues to cope with its surplus rice problem, a consequence of 20 years of high producer and consumer

Japan's exports of surplus rice

Year	Indonesia	S. Korea	Bangladesh ¹	Total	Share ²
1,000 metric tons ³					Percent
1969	6	308	17	331	99.9
1970	151	302	112	597	94.6
1971	125	527	162	909	89.4
1972	101	—	57	200	78.8
1973	250	92	70	517	79.7
1974	135	45	33	284	75.0
1975	10	—	—	10	98.5
1976	—	—	—	—	12.4
1977	—	—	—	17	—
1978	74	—	—	75	99.6
1979	169	228	155	564	97.7
1980	210	144	120	654	72.5
1981 Jan.-July	78	502	19	641	93.4

— = negligible. ¹Prior to 1972, Bangladesh was called East Pakistan.

²Indonesia, South Korea, and Bangladesh as percent of total. ³Milled basis.

Source: Japan Tariff Association.

prices. To help stimulate consumption, the resale price of rice was raised 3.15 percent in April. This increase was below the inflation rate, so the price declined in real terms. Exports of rice under a surplus disposal program continued strong, with three-quarters of the 614,000 tons exported during January-July 1981 destined for South Korea. Despite opposition from mixed feed manufacturers, the government began selling surplus rice for use in livestock feed. About 20,000 tons has been sold for June-September delivery and additional sales of 160,000 tons are planned for October 1981-May 1982.

On the production side, 660,000 hectares of formerly rice-paddy area were committed to alternative crops by the end of June under the government's rice diversion program. The budget required to pay producers to grow alternative crops was increased about 12 percent to Y340 billion for Japanese fiscal year (JFY) 1981 (April-March). In July, rice producers demanded a 17.7-percent increase in the government's purchase price. Instead, they were granted a mere 0.5-percent increase, a further disincentive to produce rice.

Livestock Product Imports Up

There are no strong signs of recovery in Japan's livestock industry. High feed prices and stable product prices have led to declining output of all major livestock products, except beef and milk. The total output of formula feed was off more than 2 percent during the first 7 months of the U.S. fiscal year. Consumption of livestock products appears to be expanding along with real growth in personal consumption expenditures. The lack of growth in domestic livestock production has led to sharp increases in imports of pork, chicken, mutton, and eggs and egg products.

Japan's imports of coarse grain are only 1 percent ahead of last year's performance. Imports from the United States, however, have increased sharply. The U.S. share of this market has been unusually high, almost 90 percent, because of limited competition from other traditional suppliers. Argentina, for example, maintained a

U.S. and California exports of fresh fruit to Japan

Fresh fruit	1979	1980
1,000 dollars		
Citrus (California's estimated share)	159,491 (113,700)	136,960 (93,600)
Lemons	83,842 (77,100)	63,351 (58,300)
Grapefruit	46,626 (7,900)	45,806 (7,800)
Oranges	29,023 (28,700)	27,803 (27,500)
Other ¹	17,388 (8,800)	22,555 (11,600)
Total	176,879 (122,500)	159,515 (105,200)

¹Includes avocados, cherries, grapes, melons, and strawberries.

13- to 15-percent share of Japanese coarse grain imports during 1977-79 but has not returned to the Japanese market since the lifting of the U.S.-USSR sales suspension in April.

Medfly Affects U.S. Fruit Exports

The recent Mediterranean fruit fly infestation in California could temporarily affect about \$100 million in fresh fruit trade with Japan. Japan announced in August that it would not accept fruit from the State's seven regulated areas and would require fumigation or cold treatment of fruit from other areas in the State. Many varieties of fresh fruit and fruit-type vegetables are susceptible to the pest, including oranges, Grapefruit, cherries, avocados, and grapes. Fresh vegetables and husked nuts are generally not affected. Trade with Japan will be slowed to some extent, as California builds up its capacity to fumigate or cold-treat export-bound fruit. (William Coyle, 202 447-8860)

USSR

Soviet 1981 grain prospects have deteriorated because of hot, dry, weather, portending the third consecutive poor harvest. Livestock inventories on August 1, 1981, showed record cattle and poultry, near-record hogs, but a slight decline in sheep and goats. Total USSR meat output in 1981 is projected at about the 1980 reduced level. Milk output is expected to drop below a year earlier. Egg production should reach a record. Shortages of butter, meat, and potatoes have been reported, with indications of rationing of meat, cheese, and butter in some large urban areas.

Grain Crop Prospects Deteriorate

Prolonged hot, dry weather over much of the central and eastern grain area in European USSR and the eastern portion of the New Lands, together with a

marked reduction in the 1981 grain area, has considerably lowered prospects for the 1981 crop. As of early September, a total output of 180 million tons was expected, making 1981 the third consecutive year of poor USSR grain harvests.

Heat and insufficient rainfall prevailed over the spring grain areas of East Ukraine, North Caucasus, and the middle and lower Volga region from early May through most of July, with a brief respite early in the month. By the end of July, these conditions had spread to the northern and northwestern regions. High winds and temperatures and low relative humidity in June and July reduced crop yields. Soil moisture conditions in several spring grain areas were no better than in 1975 and 1977, when losses from drought were high. Conditions in the winter grain areas were more favorable and yield losses probably minimal, although high temperatures as harvest neared may have led to some shattering.

The Soviet report on midyear plan fulfillment indicated a preliminary seeded grain area of only 126.4 million hectares—the smallest preliminary area reported since 1975. Considering the average annual area abandonment of 2.5 to 3.0 million hectares in the past several years, this year's harvested grain area could be only 123 million hectares—the smallest since 1972.

To minimize the consequences of a third poor harvest, the Soviets will very likely boost grain imports in the 1981/82 marketing year to a record 40 million tons, bringing total grain utilization to 219 million tons—down 6 million from 1980/81. If they are successful in acquiring such a large amount, and if crop prospects do not deteriorate further, grain used for feed could reach 122 million tons, up 3 percent from the estimated reduced use in 1980/81. Feed use at this level would require that a rebuilding of Soviet grain stocks be postponed for at least another season.

On August 5, 1981, the United States and USSR agreed to a 1-year extension of the U.S.-USSR grain supply agreement that was to expire this September 30. At the same time, the United States and the Soviets agreed to begin a detailed and in-depth examination of a new long-term grain agreement, with talks planned to begin this fall.

Harvest Pace Fast

Because of the widespread hot, dry conditions, grains ripened faster than usual, thus harvesting operations began early. By September 14, small grains and pulses (excluding corn) had been cut on 111 million hectares—almost 12 million more than on the same date in 1980 and the fastest pace in any recent year. Of the area cut, 109 million hectares had been threshed, leaving 2 million hectares in windrows.

Forage harvesting was also faster this year. By September 7, hay meadows had been cut on 78 million hectares, 3 million hectares more than by this date in 1980 and the fastest since 1974. Hay production reached a record 60 million tons, up 20 percent from a year earlier. However, haylage and silage production lagged behind last year's levels by substantial amounts.

Livestock Inventories Maintained

Inventories of cattle and poultry on state and collective farms were at record levels on August 1, 1981, compared with a year earlier. Poultry numbers, at 733.7 million, made the largest increase, up 4 percent. Hogs, at a near-record 58.3 million, and cattle, at 93.8 million, were both up by 300,000. Sheep and goats, numbering 140 million head, were down slightly from a year earlier.

The growth in total cattle numbers and also total sheep and goat numbers from February 1 to August 1, 1981, was faster than a year earlier. Growth in hog and poultry numbers lagged, however, with the growth in poultry the slowest since 1975.

July 1981 slaughter patterns for most livestock were close to normal for that month, with the exception of poultry, which showed somewhat heavier slaughter. In the case of hogs, slaughter had slowed, perhaps in an attempt to stabilize the hog population following somewhat increased slaughter at the beginning of the year. Although no significant adjustments appear to have been made in livestock numbers thus far, some larger adjustments could be required if grain prospects should deteriorate further and forage production should sustain serious damage from the hot, dry conditions.

Meat and Dairy Production Off

January-July meat production (liveweight) in the socialized sector increased 0.9 percent, while output (dressed weight) in the food-industry sector rose a slight 0.2 percent from a year ago. The largest increase in meat output in the socialized sector was in poultry, up 10 percent. Pork production rose 1 percent. But beef and mutton dropped 0.7 and almost 2 percent, respectively. Milk production continued to decline, falling 2 percent from a year earlier—a direct result of lower milk yields per cow. Egg production continued on the upswing, rising 6 percent.

Based on the midyear results in the livestock sector and current conditions, total 1981 meat production in the USSR is estimated to reach at least 1980's reduced level of 15.1 million tons and may exceed it by a small margin. Output will be well short of the 16 million tons planned, however. Milk output is expected to drop somewhat below 1980's 91 million tons and also below the 95 million planned. Egg production is projected to reach a record.

Food Shortages Reported

According to the report on 1981 midyear plan fulfillment, retail sales of baking products; meat, fish, and their products; vegetable oil; whole milk products; eggs; and fresh vegetables made small gains over midyear 1980.

Butter sales remained the same, while sales of cheese, sugar, fresh fruit, and potatoes dropped. Potato sales showed the sharpest decline—a direct result of the disastrous 1980 crop. Shortages of butter, potatoes, and meat have been reported in several Soviet cities this year. Collective farm markets have been charging higher prices for certain food items often in short supply; in some

areas consumer purchases of some items, such as meat, cheese, and butter, have been restricted to a predetermined amount. (Angel Byrne, 202 447-8380)

Eastern Europe

Eastern European grain production is estimated at about 95 million tons, slightly below last year's level. However, output of sunflowerseed, sugarbeets, and potatoes may exceed 1980's crops. A large reduction in livestock inventories has led to meat shortages in Poland, with authorities now rationing meat as well as other foodstuffs in short supply. Food prices increased in Hungary, Poland, and Yugoslavia in 1981. U.S. feed exports to the region during January-July 1981 lagged behind a year earlier, and this trend should continue in 1981/82 (July-June).

Mixed Outlook for Crops

USDA estimates the total Eastern European grain output in 1981 near 95 million tons. The grain harvest was still in progress by mid-August, but the harvest of winter barley had been completed, and the southern countries had nearly finished their wheat harvest.

Wheat production may be 3 million tons below last year, but the shortfall will probably be partially offset by gains in coarse grains. In Bulgaria and Poland, grain prospects are better than in 1980, but the outlook is worse than last year in Czechoslovakia, Hungary, Romania, and Yugoslavia.

Among the oilseed crops, only rapeseed had been harvested by the end of August. USDA estimates Eastern European rapeseed production at 1.2 million tons, near last year's level. An increase in sunflower area in Hungary offset a decline in soybean area in Romania. Reports on soybean and sunflowerseed conditions are mixed; a harvest of 2.7 million tons of soybeans and sunflowerseed combined is likely. The outlook for potatoes and sugarbeets is promising, and production will exceed last year's dismal results.

GDR Livestock Numbers Up, Poland's Down

The total midyear livestock inventory in the region as a whole is not known. However, the German Democratic Republic (GDR) has reported increases in cattle, hog, and sheep numbers of 1, 2, and 4 percent, respectively, compared with 1980 midyear figures. In Poland, cattle were down 7 percent, and hogs, 13 percent.

Food Shortages in Poland and Romania

Serious shortages of meat, milk, butter, and eggs occurred sporadically in Romania and all over Poland. In Poland, ration cards were distributed for meats, sugar, butter, and—more recently—for rice, flour, alcoholic beverages, cigarettes, and coffee. Nevertheless, July meat supplies in shops did not cover the ration quota established in April. Consequently, meat rations for most of the population had to be cut by 20 percent.

Principal U.S. exports to Eastern Europe

Commodity	January-July	
	1980	1981
1,000 metric tons		
Wheat	1,389.3	183.4
Corn	5,083.6	4,735.2
Soybeans	530.7	443.0
Soybean meal	1,189.8	1,069.6

Source: Export Sales, Foreign Agricultural Service.

No improvement is likely in the Polish meat supply in the next few months. Authorities recently forbade farmers to sell meat directly to consumers, an action intended to channel meat into retail stores. In addition, Poland intensified meat imports. The Polish Government intends to import 193,000 tons of meat and animal fats in 1981 but is reluctant to give up meat and bacon exports of about 120,000 tons. Polish officials consider these exports necessary for securing established foreign markets and for earning hard currency. In general, the quality of exported meat from Poland is higher than that imported into the country.

Retail prices of meat are heavily subsidized in all Eastern European countries except Yugoslavia. Hungary announced a 10-percent increase in meat prices in July to lower state subsidies and dampen consumption. Poland is negotiating with the "Solidarity" trade union a proposed two- to threefold-increase in meat prices. In Yugoslavia, retail prices—including those for meat—increased an average of 25 percent in the first half year of 1981.

U.S. Exports Lagging

U.S. exports to Eastern Europe during January-July 1981 lagged behind year-earlier shipments in all leading categories. Wheat exports declined most significantly. In 1980, however, U.S. wheat exports to Eastern Europe were unusually high because of an 8-million-ton drop in that region's wheat harvest.

U.S. exports in 1981/82 will likely not exceed the 1980/81 level. Eastern European feed imports from all sources are likely to decline. In Poland, the principal feed importer in Eastern Europe, harvest prospects are better than in 1980, livestock inventories are lower, and foreign exchange is in short supply. Elsewhere in the region, nonconcentrated feed, such as potatoes, feed roots, and forages, is more abundant than in 1980. To date, Romania has requested \$200 million and Poland \$800 million in CCC credit guarantees for fiscal 1982. Poland provided a list of import requirements from the United States, including the following principal items: corn, 2.3 million tons; oilmeal and cake, 0.6 million; wheat, 0.2 million; soybeans, 0.2 million; rice, 40,000; edible oils, 40,000; and cotton, 15,000. (Thomas Vankai, 202 447-8380)

China

China's overall agricultural output this year will be better than in 1980. Total 1981 grain production will be

somewhat above last year's outturn but will likely fall far short of the 1979 record of 332 million tons. Oilseed and cotton crops could well surpass records set last year. Total U.S. agricultural exports to China during fiscal 1981 are expected to reach \$2.3 billion, about 15 percent more than in 1980.

Wheat Production Up

The wheat crop, harvested May to June, is estimated to be 56 million tons, 3.1 percent above 1980's drought-damaged crop, but is below 1979's record 62.7 million. Wheat area was reduced again this year from 28.9 million hectares to 27.6, but yields were higher than in 1980.

The outlook for rice production is difficult to assess. Early rice output is up about a million tons. Intermediate rice outturn may show little improvement, although flood damage to the crop at Sichaun, a major producer, was not so great as initially feared. Outlook for late rice production is good. Total output for 1981 is estimated at 142 million tons, only 2.7 million more than in 1980, but still below the 143.7 million in 1979.

Coarse grain outturn probably will be down this year because of a decline in area and lower yields. Dry weather in the North China Plain disrupted early planting this spring, and too much rain has led to water-logging in the Northeast region.

Total China grain imports for July 1981-June 1982 are assessed at 14.5 million tons—13.5 million of wheat and 1 million of coarse grains. These amounts roughly parallel those in 1980/81. U.S. exports accounted for 8.5 million tons of wheat and 0.7 million tons of corn to China in 1980/81. On a calendar year basis, U.S. grain shipments are running toward the upper end of the 6- to 9-million-ton range specified by the U.S.-China grain agreement.

Record Oilseeds Forecast

Oilseed production got off to a good start this year, with the summer-harvested rapeseed outturn 50 percent above the 1980 crop. Area sown to the crop was up 1 million hectares over last year. Since summer-harvested rapeseed accounts for more than 90 percent of total rapeseed output, the total crop can be anticipated to reach a record 3.6 million tons on an expanded area of 4 million hectares. Soybean outturn is estimated to be 8.1 million tons, up 3 percent over 1980 mainly because of an increase in sown area. Peanut production is judged to be 3.4 million tons, 5.6 percent less than last year, but still the second best crop on record. Dry planting conditions in the North China Plain are thought to have cut both area and yields. Overall oilseed outturn is expected to be up about 4 percent over 1980.

Soybean shipments to China from all sources in the September/August marketing year 1980/81 are estimated to be 500,000 tons, with 468,000 tons coming from the United States. The prospects of a larger soybean crop, and a continued increase in production of other oilseeds for fall 1981 could lead China to reduce its imports in 1981/82.

Cotton Output Record

The 1981 cotton crop, now estimated to reach 13.3 million bales, will exceed last year's record by 900,000 bales. Area is 5.1 million hectares, up from 4.9 million last year. Yields in north China will be lower, but those in the central part of the country should improve considerably over last year's.

Strong domestic demand has kept China's cotton imports high during August/July marketing years 1979/80 and 1980/81, in spite of good domestic crops. Given a 1981/82 crop better than the previous year, plus some easing of domestic demand and a slowing of the rate of growth in cotton textile production, China's cotton imports for this marketing year may be equal to or less than the 3 million bales shipped a year earlier. (Frederick W. Crook, 202 447-8676)

Asia

Most countries in Asia continue to experience good harvests as the result of generally favorable weather. The region's agricultural output will likely rise in 1981, mainly because of generally excellent rice harvests in most countries and large prospective production in India for most major crops, including rice, coarse grains, peanuts, and cotton.

South Asian Crop and Trade Prospects

In India, the prospects for kharif (spring planted, fall harvested) crops—including rice, coarse grains, cotton, and peanuts—are in question. Sparse monsoon activity during June, which delayed plantings in some areas, was largely neutralized by the favorable accumulation and distribution of rainfall during late June, July, and early August. Rainfall during the latter part of August, however, has been below normal, particularly in the important northwestern region. While not yet a major cause for concern, a prolonged lapse or early withdrawal of the monsoon would likely reduce kharif crop yields, and also lead to poor planting conditions for the wheat crop this fall in the northwestern region. Current estimates for 1981 kharif crops (with 1980 estimates in parentheses) are: rice, 55 million tons (54 million); coarse grains, 29.5 (28.6); peanuts, 6 (6); and cotton, 6.3 million 480-lb. bales (6.1 million bales).

Pakistan's rice and cotton were planted under ideal conditions and have received good rainfall during the current monsoon season. The government's optimistic 3.4-million-ton rice target for the 1981 crop is 10 percent above the 1980 output. Production of cotton, the major foreign exchange earner, has been set at 3.4 million bales, or 740,000 tons, for the 1981/82 crop year, 4 percent above the previous year.

A favorable rice/jute price ratio, plentiful subsoil moisture, increased fertilizer consumption, and a good start to the monsoon have enhanced prospects for another record food-grain crop in Bangladesh. The crop could possibly reach 15.7 million tons, up from a record 14.9 million (93 percent rice, 7 percent wheat) in 1980. Food-grain imports in 1981 may increase slightly to 1.2 mil-

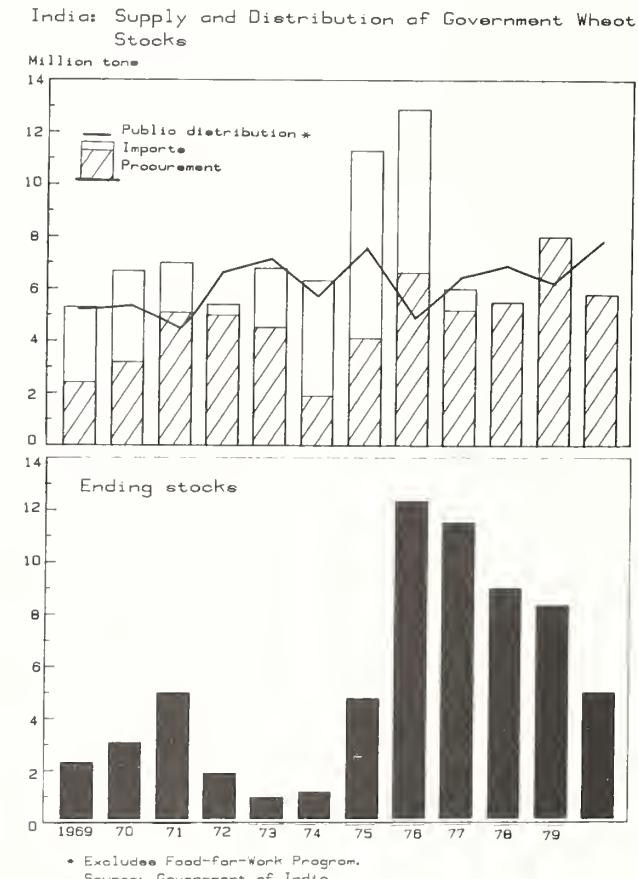
lion tons, as Bangladesh builds up its food security stocks. Ending stocks on November 1, 1981, are now forecast at a comfortable 1.3 million tons.

Sri Lanka's second rice crop (harvested in September) is expected to be below average because of irregular southwest monsoon rains. Sri Lanka harvested the Maha (first) crop during April-May 1981. Total rice production for 1981 is expected to be around 1.33 million tons, compared with last year's production of 1.42 million. Thus, Sri Lanka may import between 250,000 and 300,000 tons of rice during 1981/82.

Indian Import Outlook

In July 1981, India announced the commercial purchase of 1.5 million tons of wheat from the United States—India's first significant wheat imports since 1977. The decision to import came after a sharp reduction in government wheat stocks, following the 1979 drought and the failure of the 1981 procurement effort to provide enough wheat for both public distribution and stock rebuilding. The 1981 procurement campaign was hindered by high open-market prices and fell 3 million tons short of the 9.5-million-ton target, despite an estimated 8-percent rise in wheat production, to 34 million tons.

With public distribution requirements for wheat projected at 6.5 to 7.5 million tons, the already announced imports should allow some stock rebuilding to 3.5 to 4.5 million by the end of the marketing year in March 1982. India is expected to purchase an additional 1.5 to 2.5 mil-



lion tons of wheat by March to enhance its food security position and the government's ability to control food-grain prices. Factors affecting additional imports will be: (1) movements in wheat prices and demand for wheat for public distribution, (2) the outlook for the 1982 wheat crop, and (3) the perceived nature of domestic political reaction to additional imports.

With a favorable 1981 monsoon, India's supply position for rice and coarse grains will be relatively comfortable. Government rice stocks have been replenished by a 5.5-million-ton procurement and should be in the 4- to 5-million-ton range by the end of the marketing year in October, depending on the level of exports and public distribution. Indian rice exports are projected at about 600,000 tons in 1981 and about 700,000 tons in 1982.

Projections for Indian imports of edible oils during 1981 have been raised to 1.3 million tons because of continued high prices and private traders taking advantage of loopholes in import regulations. Indian soybean oil imports are forecast at 625,000 tons, but the U.S. share of the market has dropped sharply as a result of competition from cheaper Brazilian soybean oil. U.S. shipments of soybean oil to India may pick up during late 1981 and early 1982, as Brazilian availability declines.

Depleted stocks and rising prices for sugar and cotton have forced India, a sugar and cotton exporter in recent years, to import these commodities during 1981. Lagging mill-sugar production is considered a short-term problem

but has led to a cessation of exports and 200,000 tons of imports in 1980 and again in 1981. Imports of about 80,000 bales (480 pounds each) of Pakistani cotton were announced recently because of a shortage of short and medium staple varieties. Additional imports of about 80,000 bales are expected. India will likely remain a net exporter of cotton, with exports of about 195,000 bales of longer staple varieties in 1981/82.

Southeast Asian Crop and Trade Prospects

Thailand's 1981 rice production continues to look promising because of good monsoon rains and is likely to be a near-record 11.9 million tons (milled). Concern about prices for 1982 exports is mounting, because leading importing countries will have lower rice deficits in the coming year and several exporters expect bumper 1981 harvests.

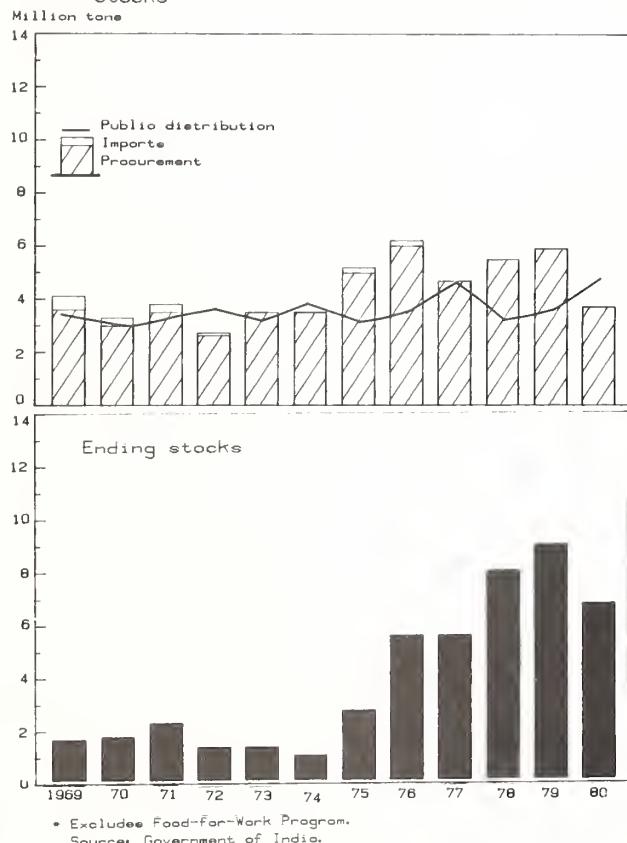
Thailand devalued its currency, the baht, about 9 percent against the dollar in July, seeking chiefly to increase exports of agricultural goods. Shipments of tapioca (cassava) pellets have suffered as the dollar, and with it the baht, has gained in value against European currencies. Other agricultural exports, including rice, corn, sugar, and rubber, are also expected to benefit from the devaluation.

Indonesia's 1981 record-large rice output may exceed 21 million tons (milled), up from 20.3 million in 1980. Excellent rice growing conditions have prevailed since the record main-season harvest that ended in late June. This record prospect is indicated by informed observers, stable retail prices for rice, record purchases under the government price support program (record stocks currently exceed 2.5 million tons), and very low government rice distribution requirements. Increased domestic supplies could limit 1981 rice imports to about 950,000 tons, less than half the 1980 requirement. Rice import volume in 1982 will largely hinge on the magnitude of 1982 main-season output, assessments of off-season production prospects, and whether or not government stocks are to be increased further.

Palm oil is a commodity of growing importance in Indonesia as, via a government-mandated allocation program, it increasingly replaces coconut oil as an edible vegetable oil. Consequently, total 1981 exports of crude and refined palm oil products will be less than half the 1980 level of about 440,000 tons. Some palm olein imports are being licensed, as the government attempts to keep cooking oil prices down in the face of inadequate domestic palm and coconut oil supplies.

Estimated 1981 Malaysian production of palm oil has been lowered to 2.7 million tons, only 4 percent above 1980's output. In both West Malaysia and Indonesia, palm oil yields per hectare have been running below 1980 levels for reasons not well understood. Malaysian palm oil production in 1982 is projected at 2.9 million tons, based on expectations that yields will have recovered as more area enters prime bearing years. Expected palm oil exports in 1981, 2.3 million tons, are only 2 percent above 1980, partly reflecting further processing and packaging of consumer-ready palm oil products for export.

India: Supply and Distribution of Government Rice Stocks



East Asian Rice Crop Prospects

Since June, rice production in South Korea benefited from rains that broke a spring drought. An October harvest of 5.5 million tons (milled) appeared possible—a return to normal levels of production after last year's disastrous crop—but tropical storm Agnes did serious damage to about 65,000 hectares in early September. Production is still expected to exceed 5 million tons.

South Korea's economy is likely to show substantial growth in late 1981 and in 1982, and this should stimulate the livestock sector and imports of feedstuffs. Beef imports of 20,000 tons are now expected in 1981; meat imports had been banned in 1980.

During July 1981, Taiwan's vegetable, rice, sugarcane, and banana crops suffered heavy losses to typhoon Mauy. However, Taiwan's first rice crop (June-July harvest) was slightly larger than the government's target of 1.12 million tons. For the last few years, Taiwan has faced a chronic rice production surplus, resulting from declining per capita consumption, favorable guaranteed prices for rice, and traditional rice-planting habits. With overflowing stocks, Taiwan is anxious to export rice because of inadequate storage capacity. (J. Albert Evans, 202 447-8229)

Africa and Mideast

While Turkey harvested a record wheat crop, domestic pricing policies and speculation by the private trade has led the government to import wheat for the first time since 1975. Already 475,000 tons have been purchased from the United States at an estimated \$75 million. A decline in Nigerian petroleum exports for the first 8 months of 1981 is likely to reduce foreign exchange earnings by \$5 to \$6 billion in 1981. The lower revenues are likely to affect outlays for the Fourth 5-Year Development Plan and possibly the expansion of food production.

Despite Large Wheat Crop, Turkey Imports

Despite another excellent wheat harvest, estimated by USDA at 14 million tons, Turkey is importing wheat for the first time since 1975. Preliminary import estimates were 500,000 tons. Already 475,000 tons have been purchased from the United States, the first 259,400 tons at an estimated price of \$146 a ton; the rest at \$167 to \$170 a ton. At the same time, Turkey has export commitments of nearly 1 million tons to Iraq, Libya, and Iran—mostly on long-term agreements and in exchange for petroleum. However, exports are likely to be only half of commitments.

TMO Short of Wheat

The Turkish wheat situation is an anomaly. Although production is record and stocks are high, the government purchasing agency (TMO) is short of wheat. For the third consecutive year, TMO has been unable to purchase sufficient amounts to supply millers, control domestic prices, and to meet export commitments. In 1980/81,

TMO was able to purchase only about 1.7 million tons, while its projected needs neared 3 million. Most of this was sold in local markets, and only a small percentage was allocated for export. During the last few months, TMO's wheat stocks have dropped to near emergency levels, so that in many regions TMO has had to reduce its normal allocations from 10 kilograms to 6 kilograms a person a month. As a result, millers had to buy a larger percentage of their requirements on the open market at higher prices.

Government Seeks To Reduce Speculation

Turkey's wheat situation occurred because of daily adjustments in the exchange rates, reduction in export deposits for wheat and flour, and producers' dissatisfaction with the official support price, announced in June, which was set below the world market price. These circumstances encouraged the private trade and millers to speculate in wheat, raising the domestic free-market price from TL1 to TL6 a kilogram (\$1=TL112) above the government support price. Producers then preferred to sell their wheat to the private merchants rather than deliver it to the government.

Speculation by the private sector caused the government to consider drastic measures to prevent probable increases in bread prices. As a consequence, the government sent a wheat-purchasing team to the United States, which by the beginning of September had contracted for 475,000 tons. By importing the wheat, the government is attempting to force producers to sell to the TMO and to prevent an increase in bread prices that would directly influence the inflation rate. As a hedge against inflation, it appears that the government intends to honor export commitments by shipping domestic wheat and consuming imported wheat while holding domestic prices at the current level.

Wheat Exports Down

Turkish exports, originally projected at 1.5 million tons, will have to be pared down. As in the past 2 years, Turkey has been unable to meet its projected exports, and this has substantially reduced the opportunities for increased foreign exchange earnings. For example, in 1978, Turkey exported \$208 million worth of wheat. That figure dropped to \$86 million in 1979 and to an estimated \$50 million in 1980. This has been a severe loss for a country whose foreign exchange reserves are low, whose external debt is \$13 billion, and who had a \$4.8-billion trade deficit in 1980. In addition, Turkey will have to expend some \$75 to \$100 million in foreign exchange for wheat this year.

While Turkey's domestic agricultural production has made substantial progress in recent years, its domestic wheat pricing policies have reduced export opportunities and potential export earnings at a time when the country is trying to make an economic recovery and meet its energy import costs.

Nigerian Oil Production Declines

During the first 8 months of 1981, Nigeria's daily petroleum production fell by 60 percent as a result of the

decline in world demand for oil and the Federal Government's maintenance of its high oil price in the face of a world oil surplus. Export earnings have dropped at least \$2 billion over that period, and now, even though Nigeria has lowered its oil price to \$36 a barrel, it is likely that the revenue shortfall will be between \$5 and \$6 billion by the end of the year. Oil production was expected to average over 2 million barrels a day, but so far it has been less than 1.4 million and may well average 1 million barrels or less for the remainder of the year.

Development Plan Affected

A shortfall amounting to several billion dollars will likely have serious consequences for the government and the economy. The Federal Government's 1981 budget of \$22.4 billion was based on expected oil-export earnings of \$23 billion. Expenditures in the budget will need to be adjusted, with some postponed and others eliminated. The Fourth National Development Plan (1981-1985) was drawn up on the assumption that oil production would be 2.1 million barrels a day, with exports at 1.9 million, at a favorable price. These assumptions were probably too optimistic and will likely cause the outlays proposed in the plan to be reexamined. This will be an important political matter, because the Plan's execution will greatly affect the economy and the direction it will take over the next few years.

The manner in which President Shagari's government deals with the financial crisis will be important, especially because Shagari has pledged to improve the agricultural sector, particularly food production, and has devoted 10 percent of the Plan's funds to this end. If funds are cut and projects delayed or eliminated, credibility and support for the government may be jeopardized. Reallocating fewer resources among essential projects will be a difficult political task. Many still recall a similar crisis that occurred during 1978/79, when a decline in oil revenues resulted in a severe recession.

Despite the decline in export earnings, foreign exchange reserves remain sufficient to cover imports for 5 to 6 months. Because imports of wheat and rice, as well as other food products, are so visible and politically important (particularly rice), it is unlikely that the government will restrict these imports in the near future. Politically, it would be a difficult step to take, one that would elicit much ire. Shagari's government is constrained by such political considerations, unlike the 1978 military government that had a free hand in restricting imports during the recession. Still, if foreign exchange reserves do fall to an unacceptable level, restrictions on imports of intermediate goods might be imposed, but restrictions on food grains and capital goods would be difficult.

U.S. Trade Deficit To Decline

The 1980 U.S. trade deficit with Nigeria reached \$9.75 billion, second only to that with Japan. This year, however, the deficit should decline significantly, because less oil has been purchased. In addition, U.S. agricultural sales to Nigeria should be over \$500 million, as compared

to \$348 million in 1980. Despite the decline in export earnings, Nigerian imports of U.S. farm products, principally 1.3 million tons of wheat and 300,000 tons of rice, should reach their projected levels.

Agricultural trade for fiscal 1982 is likely to increase, although not as much as it did from 1980 to 1981. In addition, investments made as part of the Joint Agricultural Consultative Committee may be helpful in increasing this trade. Joint ventures in agro-industries and the infrastructure are under consideration, and American sales will improve if these investments are made. (Michael E. Kurtzig, 202 447-8054)

Latin America

Agricultural Production Rising

Most of Latin America, including the three major agricultural-producing countries (Argentina, Mexico, Brazil), has enjoyed or anticipated moderate-to-strong increases in farm production in 1981 because of generally favorable weather and expectations of good prices. However, weak world prices for coffee, cocoa, sugar, and beef threaten the size of export earnings, particularly for Colombia, the Central American countries, and the Caribbean. U.S. agricultural exports to the region should contract slightly from the fiscal 1981 record of \$7 billion to an estimated \$6.7 billion for 1982 because of anticipated production increases in 1981. U.S. agricultural imports from Latin America should continue to be strong because of more normal weather patterns.

Argentine Grain Crop Record

Argentine grain production in 1981 was a record 28.7 million metric tons, reflecting a large summer grain harvest that more than offset the weather-reduced winter crops. The USSR purchased approximately 80 percent of the exportable supply, continuing the trade pattern that the U.S. grain embargo created. Next year's grain harvest will decrease slightly if weather patterns return to normal and some corn and sorghum areas are shifted to higher priced oilseeds. Wheat plantings are forecast to increase because of higher world prices, loans from the Argentine Government, and assurance of further Soviet grain purchases. The USSR will probably continue to be Argentina's main grain buyer in 1982.

Argentine oilseed production declined approximately 10 percent from 1980, because high grain prices encouraged a shift away from oilseeds and adverse weather lowered the yields of cottonseed, peanuts, flaxseed, and sunflowerseed. Despite lower production, oilseed exports have been maintained because of continued strong demand for soybeans from the USSR, the EC, Brazil, and Mexico. A record oilseed production of 6.9 million tons, based on expanded area and improved weather, is forecast for 1982. Soybeans should exceed 4 million tons. With most of the production going into crush, oilseed exports will gain only slightly.

Serious financial problems and low cattle prices in early 1981 resulted in increased beef production, as producers liquidated herds. Peso devaluations and the signing

of beef sale agreements with Egypt and the USSR boosted exports from their first-half decline. Beef production and exports are expected to slacken in 1982, as the sector enters a period of equilibrium. Most exports will likely go to the USSR, the EC, and Egypt.

Mexican Crop Prospects Brighten

Mexican agricultural production appears headed for a 5-percent increase in 1981, based on timely rains and the Mexican Government's production incentives, which include higher support prices, more and cheaper agricultural credit, and lower government-controlled input prices. Record crops are forecast for almost all grains and oilseeds. Excellent flowering conditions for coffee as of August suggest a moderate increase in outturn. Cotton output probably will not expand, however, because of weakening domestic demand and greater government attention to food crops. Low prices in the United States in 1981 have affected winter fruit and vegetable exports, which could decrease by 15 to 20 percent.

Mexico is expected to restrict purchases of U.S. agricultural commodities to \$2.5 billion in fiscal 1982 because of its new austere economic climate (due to lower oil prices), the forecasted increase in grain production, and Mexico's desire to diversify markets. Because low prices in the world market have affected the value of Mexican agricultural exports, the U.S.-Mexican trade balance probably will be in favor of the United States, as it was in 1980.

Brazilian Crops Bountiful

The Brazilian harvests in the first half of 1981 were the best ever and among the few bright spots in the country's very bleak economic situation. Record soybean and corn harvests, 15.7 and 22.3 million tons, respectively, and a near-record paddy rice crop of 9.1 million were reported. Coffee, increasing 49 percent to 32 million bags, had its largest outturn since 1966.

Sugarcane production is expanding to 152 million tons. Production is getting an additional boost from the Brazilian Government, with its financing sugarcane experiment stations in six pioneer areas, and a World Bank loan for \$250 million for the construction of refineries. Cocoa production set a record 337,000 tons. A larger volume of agricultural exports, however, is offsetting the lower prices of some tropical products, raising 1981 export earnings to an alltime high. Brazil's exports, soybean meal and oil will remain at record levels.

Brazil's support prices for the fall 1981 crops have provided a good production incentive for corn and beans, but were disappointing to wheat farmers who were already discouraged by three successively bad harvests. Wheat farmers, consequently, decreased planted area by nearly a third, and production is forecast at only 1.5 million tons, with imports of 4.5 million required. The United States will be the principal supplier because of its credit guarantees. A Canadian wheat sales agreement allows for shipments of 800,000 tons to Brazil, with an option for 300,000 more. The July 21, 1981, frost will cut back the 1982 coffee harvest 40 to 45 percent. Poor cocoa flowering in the main crop suggests lower cocoa production in 1982 as well.

Production in Other Countries Mixed

Heavy rains during April-July 1981 affected Venezuelan production, causing the already strong (and growing) demand for agricultural imports to increase. U.S. agricultural sales to Venezuela in fiscal 1982 are likely to top the \$1 billion mark for the first time. Colombian coffee production appears likely to reach a record 14 million bags in 1981, but disease and insects affected sugar and cotton production.

Rains finally ended Peru's 3-year drought, but rising demand and import-liberalization measures continue to keep imports high. Chile's free-market economic policy continues to discourage wheat production in 1981 and instead encourages livestock, fruit, and pulses. Both agricultural imports and exports continue to increase. Paraguayan soybeans and Uruguayan beef output expanded in 1981. Consequently, exports also expanded. Depressed international prices affected Ecuadorean agricultural exports, but strong production will mean ample domestic food supplies.

Civil strife, land reform, and deteriorating economic conditions continue to disrupt the growth of agricultural production in most Central American countries in 1981. Nicaragua's steep decline in production, however, appears to have reversed. Food production in the Caribbean countries of the Dominican Republic, Jamaica, and Haiti appears likely to increase moderately, assuming good weather in the next few months, although substantial deficits will remain. Cuban officials are optimistic about their country's agricultural production, especially tobacco, which will set a record. In the eastern Caribbean, agricultural production continues on a downward trend and, with demand rising, necessitates further increases in imports. (John Link, 202 447-8133)

WORLD FOOD AND TRADE POLICY DEVELOPMENTS

International Organizations and Agreements

World Food Council Meeting

Secretary Block and other ministers of agriculture were delegates to a May meeting of the World Food Council in Novi Sad, Yugoslavia, where they discussed

worldwide food and agricultural issues. At the meeting, Secretary Block urged all nations that seek food security to begin building their own national grain reserves as quickly as possible, rather than to await a new wheat trade agreement or other world pact. Grain reserve stocks that respond to global price indicators are preferable, Secretary Block stressed, to reserves directed by or

through a world organization. He underscored that the United States does not favor any international coordination or control of such a reserve. He recommended that the International Wheat Council, at its upcoming meeting, consider approaches that incorporate market-oriented principles in its consideration of grain reserves as part of alternative world food security schemes.

International Wheat Council Meeting

At the semiannual meeting of the International Wheat Council (IWC) in Madrid, Spain in June, the U.S. delegation further expounded support for market-oriented approaches to world food security and reserve stocks. The United States urged all nations to begin building their own grain reserves now. The United States further suggested that developing nations consider the expansion of food grain storage and distribution facilities with the help of the World Bank's lending program. The U.S. delegation repeated U.S. opposition to world grain reserves operated via international control or coordination, rather than nationally held reserves responsive to world market prices.

The United States favored strengthening the Wheat Council's role as a forum for international discussion of food security issues. The IWC can step up monitoring of world food price and supply/demand conditions, serve as a consultative forum to review tight food situations, and encourage other nations to build their own reserves. At the meeting's conclusion, the IWC Secretariat was requested to present at the November 1981 meeting a new draft report on world food security approaches. The draft will include a discussion of the merits of market-oriented reserve systems.

International Cocoa Agreement

The International Cocoa Agreement (ICCA) will provisionally take effect among ratifying nations, despite failure to reach the required membership quotas. The membership deadline was extended 4 months to September 30 in an attempt to reach full membership, consisting of countries that are responsible for 80 percent of world cocoa exports and 70 percent of imports. Member countries decided at a June 29-30 UNCTAD meeting in Geneva to apply the agreement among themselves, without either the Ivory Coast, the world's largest exporter, or the United States, the biggest importer. Both have declined membership.

The present 17 members account for 72 percent of world cocoa exports and 45 percent of imports. The aim of the ICCA is to raise cocoa prices to between \$1.10 and \$1.50 a pound by influencing supply and demand among its members. Ratifying importers are: Argentina, Finland, the German Democratic Republic, Hungary, Norway, Sweden, Switzerland, and the USSR. ICCA exporters are: Brazil, Cameroon, Ecuador, Ghana, Mexico, Nigeria, Papua New Guinea, Peru, and Venezuela.

ICO Quota Cut

Because of persistent declines in coffee prices during May and June, the Executive Board of the International

Coffee Organization (ICO) voted an unscheduled cut of 1.4 million bags in members' export quotas at its June 30-July 3 meeting. This is the fourth cut made during the ICO's October 1980 - September 1981 marketing year. It follows closely the Board's third cut of 1.4 million bags in June. The first and second cuts occurred in November and December 1980, during the ICO first quarter, which was followed by a period of stable prices through the second and most of the third quarters.

The ICO indicator price of coffee, based on a 20-day moving average, fell from a January high of 125.6 U.S. cents a pound to 98.4 cents at the end of June. Automatic cuts of 1.4 million bags occur—although not more than two cuts a quarter—when prices fall below 120 cents a pound and again at 115 cents. A quota cut also results if the indicator price remains at or below 120 cents for 20 days or more. The fourth cut will be automatically restored if the average price rises above 115 cents a pound, but the Executive Board can overrule this quota expansion if the market situation still appears fragile.

Bilateral Trade Agreements

U.S. To Supply Mexico

On June 9, Mexico and the United States signed an agreement that gives Mexico the option to buy at least 4.7 million tons of U.S. grains and other commodities, including 3.7 million of corn and sorghum, through commercial channels at prevailing market prices during 1981. Previous agreements covered 7.2 million tons in 1980 and 6.15 to 8.18 million in 1981, while the current pact may be augmented as prospects for the 1981 Mexican crop become better known.

U.S.-USSR Grain Agreement Extended

On August 5, U.S. and USSR negotiators concluded a 1-year extension to the current 5-year grain agreement, previously scheduled to expire September 30, 1981. Semi-annual consultations were held, as per the agreement, during June 8-9, following the April 24 lifting of the U.S. sales suspension. These meetings made available to the Soviet Union an additional 3 million tons, each, of wheat and corn beyond the agreed limit of 8 million tons a year total, which had already been reached during the agreement's fifth year. From early August to September, the Soviets purchased 1.55 million tons, mostly corn, under this supplement, as well as contracting for 1.6 million of corn and 1 million of wheat to be delivered in the extension year. The agreement's regular consultations, which will provide a framework for negotiation of a new long-term agreement, are being scheduled for September 30 and October 1, in Moscow.

Soviet-Brazil Supply Pacts

Brazil and the USSR reached a set of trade agreements in Moscow on July 15 to span the 5 years from 1982 to 1986. Brazil will supply agricultural goods valued over \$300 million, including an annual minimum of 500,000 tons of soybeans, 400,000 of soymeal, and another 40,000

of soyoil at prevailing world prices. A minimum of 10,000 tons, each, of cocoa and cocoa liqueur annually will be shipped over the 5 years, as well as 500,000 of corn a year from 1983 to 1986. The Soviet Union will provide Brazil 20,000 barrels of crude oil daily between August and December 1981, with renegotiations on the oil shipments set for the end of the year. Additionally, they will supply Soviet turbines for Brazilian hydroelectric projects, possibly in return for Brazilian manufactured goods.

Soviet-Indian Barter Agreement

The USSR and India concluded their third barter agreement in early May, trading Soviet crude oil and

products for Indian farm goods during Indian fiscal year 1981/82. In return for 1 million tons of Soviet crude oil and 35,000 tons of petroleum products, India will supply rice (500,000 tons) and, for the first time, other grains and products as well. The latter will include 100,000 tons of barley, 200,000 of corn, another 20,000 of peanuts, and 50,000 of alumina. Such trade, with a total value of \$750 million, will benefit India's foreign exchange situation, particularly in offsetting imported petroleum costs that will absorb two-thirds of India's projected export earnings in 1981/82. (Edward Wilson, 202 447-8841)

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